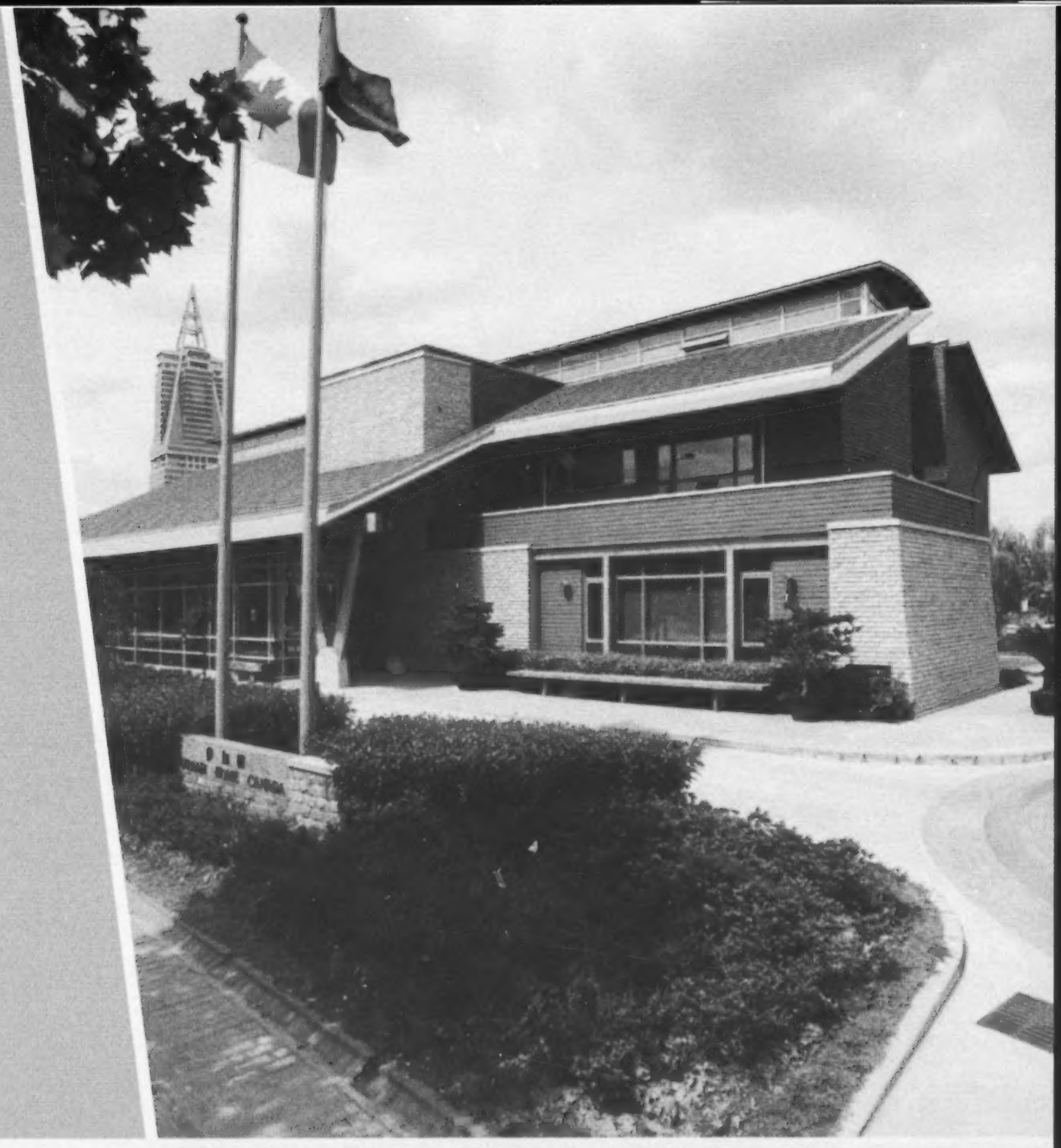

FORESTRY INNOVATION INVESTMENT NOVEMBER 2012

REPORT TO STAKEHOLDERS

Forestry Innovation Investment

Front cover image: Dream Home Canada complex, Shanghai, China
Head office for FII China and Canada Wood Group China

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Working Together

British Columbia maintains its position as the world's largest exporter of softwood lumber products through the collective efforts of industry, trade associations, research institutions, governments and other stakeholders. FII is proud to work with the following organizations in marketing B.C. forest products at home and abroad.

Forest Industry Associations and Organizations

- APA – The Engineered Wood Association
- B.C. Shake & Shingle Association
- B.C. Wood Specialties Group
- Binational Softwood Lumber Council
- Canada Wood Group
- Canadian Wood Council
- Canadian Wood Council – Wood*WORKS*! BC
- Cedar Shake and Shingle Bureau
- CertiWood
- Coast Forest Products Association
- Council of Forest Industries
- Forest Products Association of Canada
- Softwood Lumber Board
- Sustainable Building Coalition
- Western Red Cedar Export Association
- Western Red Cedar Lumber Association
- Wood Enterprise Coalition
- Wood Pellet Association of Canada
- Wood Products Council
- Independent Wood Processors Association of B.C.

Post-Secondary and Research Institutions

- Consortium for Research on Renewable Industrial Materials
- FPInnovations
- University of British Columbia

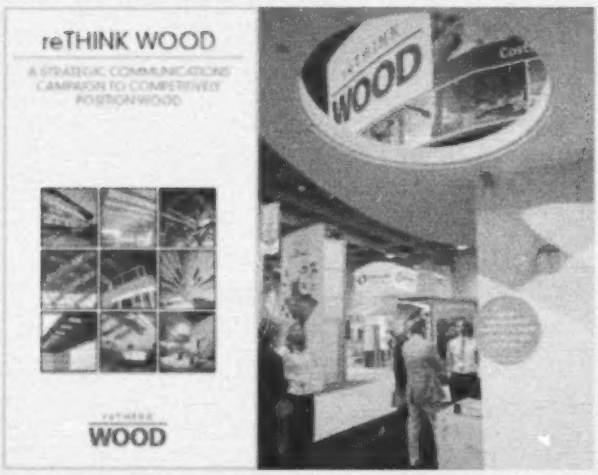
Government Organizations

- Government of British Columbia
  - Ministry of Jobs, Tourism and Skills Training
  - Ministry of Forests, Lands and Natural Resource Operations
- Department of Natural Resources, Government of Canada
- Department of Foreign Affairs and International Trade, Government of Canada
- Governments of Alberta, Ontario, Quebec, Nova Scotia, Yukon and Northwest Territories

September 2012 saw the largest-ever delegation of Indian buyers to the BC Wood Global Buyers Mission

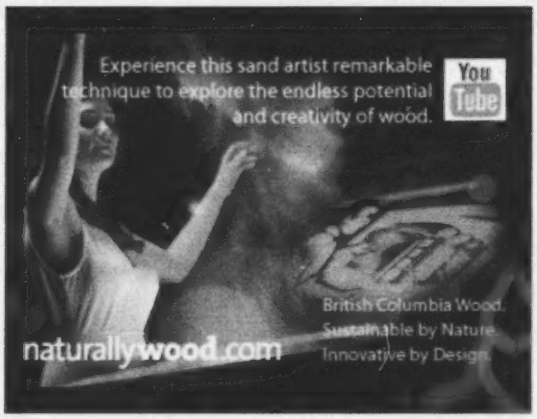
India – Growing the Asian Market for B.C. Wood

With encouragement from industry and financial support from the Government of Canada, FII launched a market development strategy for India in 2012/13. Initial actions included the establishment of a trade office in Mumbai, hiring local staff, and launching a number of targeted research projects. Early indications suggest particular opportunities for several B.C. species and, with key import restrictions now eliminated, export potential appears significant. Working with its partners, FII hopes to position the B.C. forest sector for long-term growth in India.



reThink Wood

In early 2012 Forestry Innovation Investment and the Binational Softwood Lumber Council jointly introduced the reThink Wood initiative, with the objective of having industry across Canada and the United States deliver consistent messaging on wood performance, cost, sustainability and the many advantages of using wood building systems. So far, reThink Wood has generated over 10,000 leads and over 53 million news and online "views".


Experience this sand artist remarkable technique to explore the endless potential and creativity of wood.
You Tube
British Columbia Wood.
Sustainable by Nature.
Innovative by Design.
naturallywood.com

B.C. Wood on YouTube

In 2011/12 FII launched the naturally:wood YouTube channel as a way to engage with audiences through social media and leverage the range of video resources available. To date, the YouTube channel has received more than 32,000 video views, 85 subscribers, 113 likes, 79 shares and 72 favourites. *Introducing Cross-Laminated Timber to North America, Wood in Transportation, Building Green* and the *"Sawdust"* video have garnered the most attention. A growing number of industry stakeholders are using, leveraging and embedding naturally:wood video materials for their own marketing and communications purposes.

Quattro 3 condominium development, Surrey B.C.

B.C.'s Wood-Frame Mid-Rise Construction

The B.C. Building Code was revised in 2009 to allow wood-frame construction of multi-family residential buildings up to 6 storeys – a first in North America. Today in B.C., there are more than 175 wood-frame mid-rise buildings in various stages of development – from project planning through to design, permitting and construction. The average mid-rise building utilizes approximately 1 million board feet of lumber.

B.C. – *The Case for Tall Wood Buildings*

The Case for Tall Wood Buildings, a study authored by architect Michael Green and structural engineer Eric Karsh, was released in March 2012. Completed for the Canadian Wood Council with funding from FII, the study illustrates how mass timber products (such as cross-laminated timber, laminated veneer lumber and laminated strand lumber), in combination with new design approaches, can be used to create buildings of up to 30 storeys. The study proposes a design methodology that can meet relevant structural codes (earthquake and wind loads) and fire and safety needs, and stimulate timber construction that is cost-competitive with concrete and steel.

The study has received significant worldwide media attention, with original stories and release reports reaching an audience estimated in the tens of millions.

Canada Tohoku (Japan) Reconstruction Project

On March 11, 2011, a 9.0-magnitude earthquake occurred off Japan's northeast coast in the area of Sendai. The earthquake and resulting tsunami caused mass fatalities, casualties and catastrophic loss of infrastructure.

In response to the tragedy, three parties joined to donate substantial aid to finance wood-frame reconstruction. The Province of B.C. contributed $2 million through FII, the Government of Canada provided $2 million through Natural Resources Canada, and the B.C. forest industry donated $500,000.

Canada Wood Japan, acting on behalf of the funding partners, is managing two initial projects, a library and a public market in Natori, which are now under construction. Other projects will follow in the coming year.

"By working together with industry partners, Canada and B.C. have been able to assist our friends in Japan to move past this tragedy, and the B.C. wood being used will be a lasting symbol of our Province's close relationship with Japan."

Premier Christy Clark comments on the signing of an MOU for the Yuriage Public Market Reconstruction Project in Natori City, Miyagi Prefecture, Japan, May 14, 2012

[1] Subsequent to the formal announcement, the Province of Alberta contributed $150,000 to the joint effort.

Demonstrating Success in China

In 2003, the B.C. government announced the bold goal of making China the next great market for the Province's forest products and supported this by bolstering its financial contribution to industry and opening a new FII office in Shanghai. Since that time, a unique provincial, federal and industry program has built relationships with Chinese officials and developers, reduced barriers to expanding wood construction in China, and transferred technical know-how and quality support to China's leading builders and developers. Together with investments in more than 20 high-profile demonstration projects, including the $8 million Canada-B.C. Wenchuan Reconstruction Initiative, the program has raised awareness of the benefits of wood use at all levels in China.

Building on the momentum and profile of the program, the rise in B.C. lumber exports has been spectacular. In 2011, sales of B.C. lumber to China hit a new high, topping $1 billion, compared to $69 million when the program began in 2003. Exports of lumber to China now represent over 30 per cent of the total volume of B.C. exports of softwood lumber, second only to the Province's shipments to the U.S.

With the foundation for market development in China now firmly established, 2012/13 will see the wrap-up of major demonstration work. FII will continue to emphasize its core strength in building relations with Chinese government officials and state-owned developers, while Canada Wood Group will provide training, technical expertise for building and fire codes, on-the-job quality assurance services, and promotion and sales support for individual companies.

China Demonstration Projects Timeline

2003 Groundbreaking for Dream Home Canada, Shanghai

2004 Dream Home Canada, Shanghai

2006 Xuhui District Roof Renovation, Shanghai

2007 DHC Villas, Shanghai
Qingdao Roof Renovation
Tongji University Roof Renovation, Shanghai

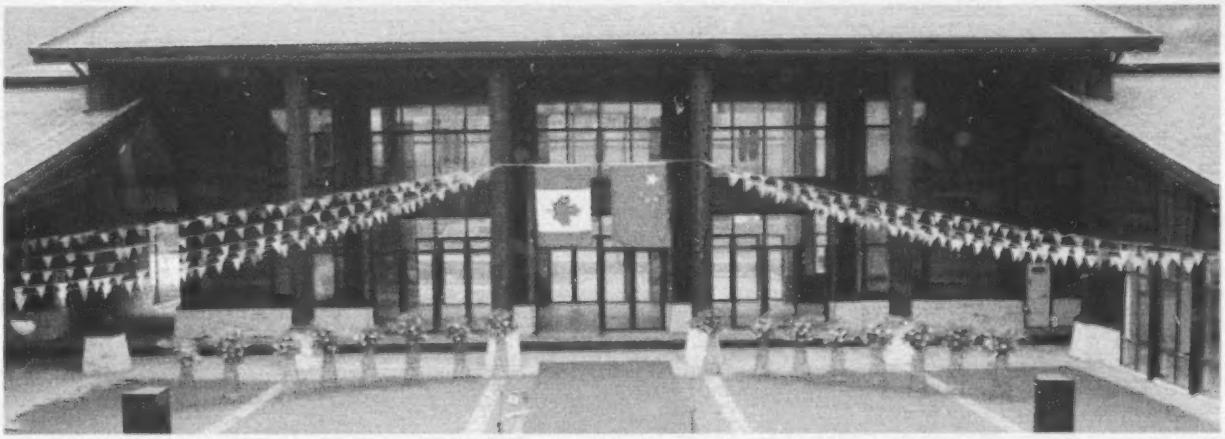
2008 Pacific Gateway Park, Guangzhou
Najing Roof Renovation
Wenchuan Earthquake Initiative launched

2009 Xiang'E Primary School, Dujiangyan
Qingdao Zhongshan landscape project

2010 Vancouver Pavilion, EXPO 2010, Shanghai
In-fill projects, Chongqing and Suzhou
Mianyang School for the Disabled
TEDA-Tianjin Apartment Project launched
Jinqiao townhouse project launched
Sanlin Affordable Housing Project launched, Shanghai

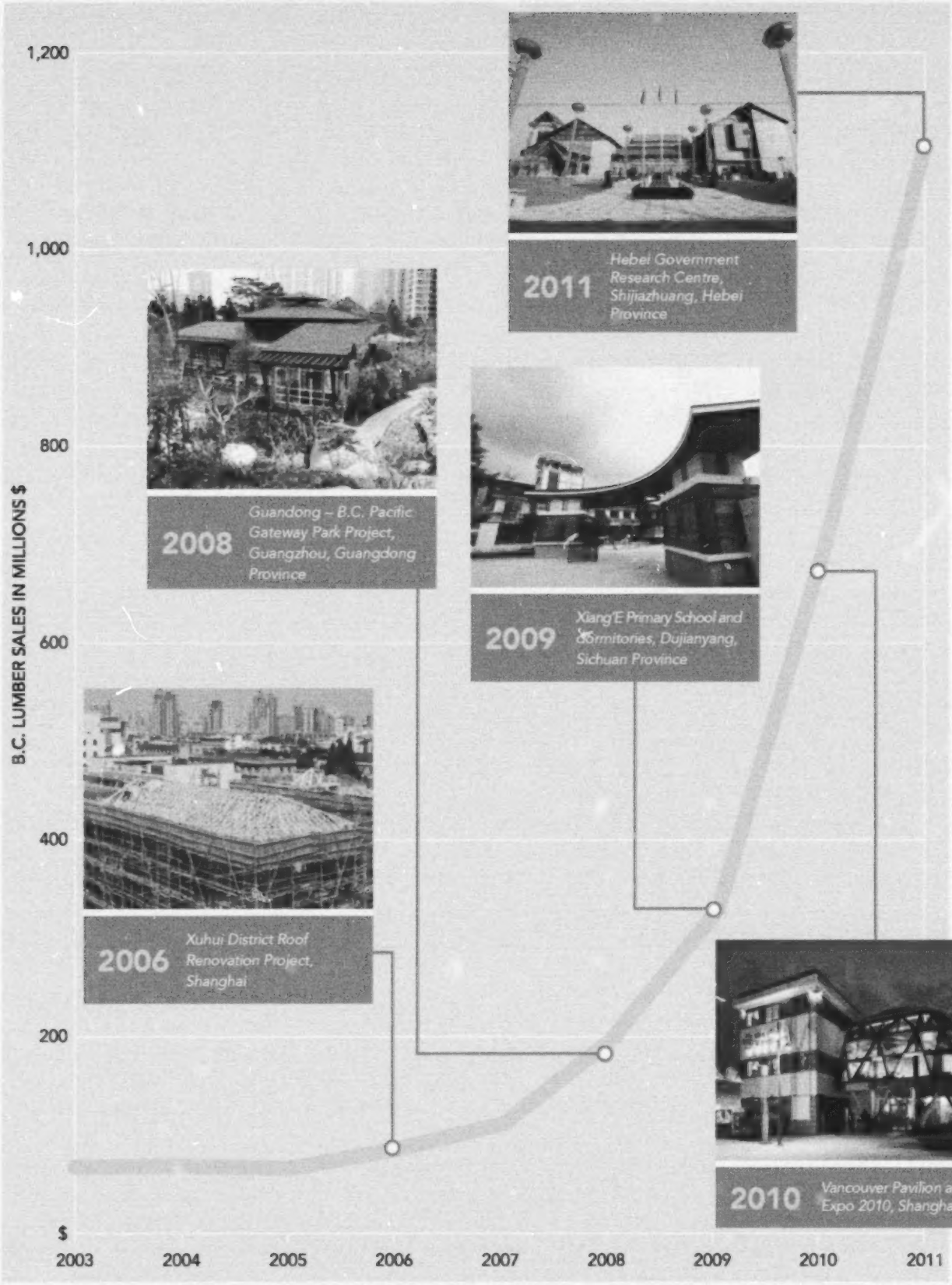
2011 Sino-Canada Demonstration Apartment
Hebei Research Demonstration Project
Market Street, Chengdu
Beichuan Qiang Maple Leaf Seniors Home, Sichuan

2012 Beijing Rural House Project



Beichuan Qiang Maple Leaf Seniors Home Beichuan, Sichuan Province

Building Sales of B.C. Lumber to China



Message from the Minister

In the year since the last Stakeholder Report by Forestry Innovation Investment (FII), the market development partnership between the forest industry, the Government of Canada and the Province of British Columbia has continued to generate sales overseas and jobs here at home. Despite stiff competition, B.C. has maintained its ranking as the world's largest exporter of softwood lumber products, ahead of the United States, Russia and Scandinavian countries.

Lumber exports in 2011 were up 9 per cent over 2010 levels and valued at more than $3.89 billion, signalling the continued recovery of our forest sector. Exports in 2012 are maintaining this trend, with volume growth up 7 per cent over the first half of 2011.

Exports continue to be powered by China, a market that has been a key focus for our international marketing efforts. B.C. lumber exports to China now account for one-third of total international sales by volume, up from less than 5 per cent in 2003 when our market development efforts were accelerated with the establishment of FII.

Here in B.C., the Wood First program is steadily raising awareness of the benefits of building with wood and creating higher value from our forest products. Those responsible for public and private developments are embracing new wood products and technologies and, thanks to recent changes in the B.C. building code to allow for taller wood buildings, more than 175 mid-rise wood-frame buildings are in various stages of planning, design or construction.

These and other developments illustrate the ongoing success of our market development programs. The programs will continue to be an important part of Canada Starts Here: The BC Jobs Plan as forestry employs tens of thousands of British Columbians and remains the cornerstone of more than 40 per cent of B.C.'s regional economies.

In the months ahead, maintaining and continuing the collaboration among the Province, the Government of Canada and B.C.'s forest industry will continue to be a priority for my ministry and the provincial government.

Pat Bell
MINISTER OF JOBS, TOURISM AND SKILLS TRAINING
AND MINISTER RESPONSIBLE FOR LABOUR

Message from the CEO

As the British Columbia Crown agency responsible for developing and diversifying markets for the Province's forest products, FII is pleased to have seen improving forest industry sales over the past year, totalling $11.1 billion in 2011 compared to $10.7 billion in 2010.

Lumber exports were up by 9 per cent in volume and 7 per cent in value. The rise was especially remarkable in China, with a 47 per cent increase in value year-over-year. China accounted for 32 per cent of B.C. lumber exports in 2011, compared to 24 per cent the year before. Japan's share held constant at about 12 per cent despite the profound shock of the massive tsunami. On the downside, with housing starts continuing to be near historic lows, exports of lumber to the United States continued to lag in both volume and value

This annual *Stakeholder Report* outlines how FII and its funding recipients have been working to retain existing markets and develop new market opportunities, highlighting accomplishments in 2011/12 and activities underway in 2012/13.

As most of FII's stakeholders know, China is especially important in FII's programming. In 2011/12 the Province and senior industry representatives agreed that we had essentially reached the end of the "proof of concept" phase in introducing wood-frame construction to China. During the year we saw significant interest and uptake by major developers and government regulators. As a result, the program this year involves completing the last demonstration projects to which FII committed in past years, with no new projects to be undertaken at FII's cost. Instead the focus is shifting towards the Canada Wood Group providing Chinese builders and developers more training and technical assistance with design and construction. The Government of Canada and the Province will continue to jointly fund much of the cost of that work.

Moving further afield, FII, with financial support from the federal government, has established a subsidiary company in India to begin a new market development program there. The initial emphasis will be on helping the B.C. and Canadian industry learn more about India's need for wood products, its distribution channels, and its competitive drivers.

Closer to home, 2012/13 is the first year in which FII carries the prime responsibility for the Province's Wood First initiative. Under that banner, FII has brought together the former *Business Innovation Program*, focused on assisting value-added producers, with the funding programs aimed at assisting building developers and designers to use wood rather than steel and concrete. Representatives of manufacturers, architects, builders, and municipalities are now meeting in a formal setting, and FII is confident their continuing dialogue and counsel will help to make B.C. a world-class centre of excellence in manufacturing and using innovative wood products.

On the Market Outreach front, FII will continue initiatives to position B.C. and our forest sector as a leading global supplier of products from sustainably managed forests. With guidance from the Market Acceptance Advisory Group, FII has directed significant program resources to collaborate with the Binational Softwood Lumber Council and the Softwood Lumber Board in the North American reThink Wood initiative, which is a comprehensive strategy to proactively grow the demand for wood products in non-residential and mid-rise residential structures.

My colleagues and I welcome comments on this report, and on any aspect of FII's strategies, priorities and program delivery.

K. Baker

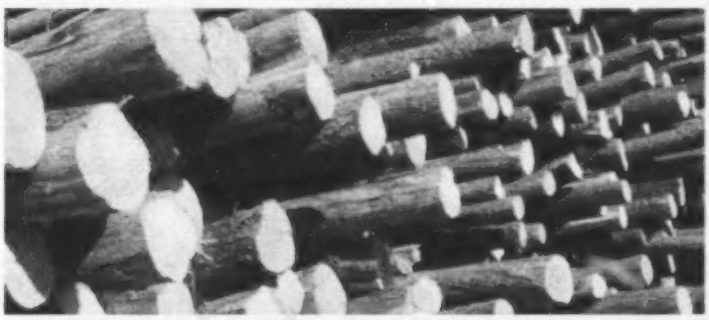
Ken Baker
CEO

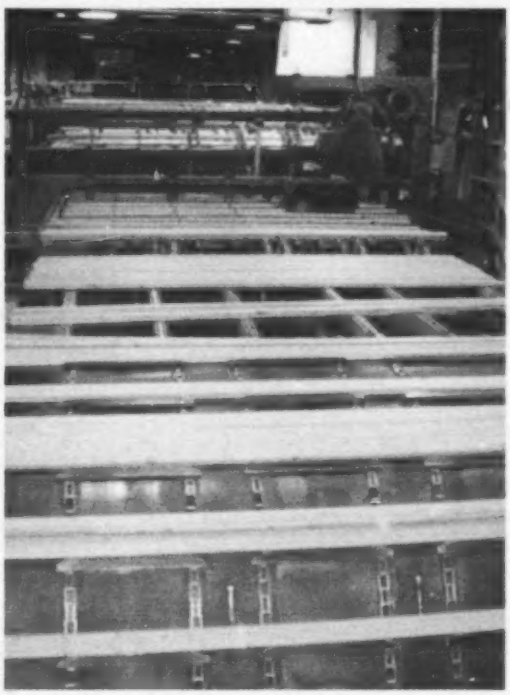
An Overview of FII

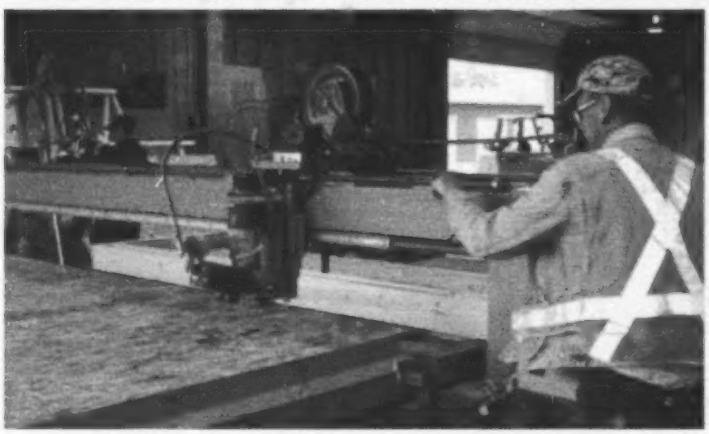
Incorporated in 2003, Forestry Innovation Investment is the B.C. government's market development agency for forest products. FII works collaboratively with industry trade associations, other levels of government including the Government of Canada, and research institutions in researching, designing and delivering market development programs. Through these efforts, FII and its partners have delivered a number of major initiatives over the past nine years (see accompanying timeline).

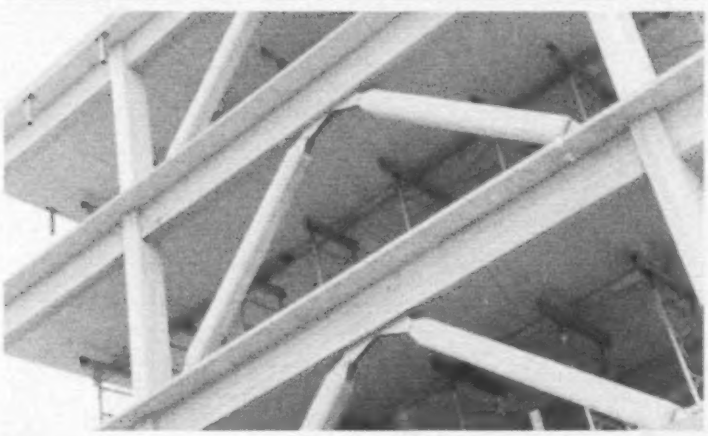
FII focuses on:

- positioning British Columbia as a global supplier of world-class, environmentally friendly forest products;
- actively maintaining, creating and diversifying demand for B.C. forest products in Canada and in key world markets;
- helping break down non-tariff trade and market barriers to ensure opportunities for B.C. forest products;
- working with the forest industry to promote B.C.'s forest products and forest management to the global marketplace; and
- helping ensure that the forest sector, through product development and strong international sales, continues to be a leading contributor to the B.C. economy.









Vision, Mission and Values

VISION

Forestry Innovation Investment is an effective catalyst in positioning British Columbia as the leading global supplier of environmentally superior products from sustainably managed forests.

MISSION

FII's mission is to be an innovative and collaborative forest marketing agency that anticipates and meets the needs of government, the B.C. forest sector and international markets through well balanced investments that maximize value to British Columbia.

VALUES

FOCUS ON PARTNERSHIPS – FII works in partnership with key stakeholders to develop initiatives and ensure programs are effectively delivered in a coordinated manner.

INNOVATION – FII encourages innovative programs and responses to changing circumstances. FII staff learns from the past and continuously improves the effectiveness and efficiency of FII programs by consulting widely and optimizing the use of resources.

INTEGRITY AND CREDIBILITY – Projects and services are delivered by capable, motivated individuals who focus on ensuring FII programs are credible and useful.

INVESTMENTS BASED ON KNOWLEDGE AND EXCELLENCE – FII strives for transparent decision-making and investment processes based on research.

2003	FII incorporated
	B.C. Market Outreach Network established to promote B.C.'s sustainable forest practices and respond to advocacy campaigns targeting B.C. forestry
	Market Development Program established to identify and develop new markets for B.C. forest products, with an emphasis on Asia-Pacific
2004	Major focus on hiring permanent staff, establishing subsidiary company in China, and building office in Shanghai
2005	Demonstration wood-frame housing built in Sumatra (Indonesia) following December 2004 earthquake and tsunami to test logistics and social parameters of disaster reconstruction
2006	Completion of Dream Home Canada office building in Shanghai, China, reflects priority being placed on China market development
2006	Mountain Pine Beetle Program introduced to support industry response to outbreak, including market development, product research and manufacturing innovation
2007	Business Innovation Program introduced to support marketing and product innovation in value-added sector
2008	$8 million Canada-B.C. Wenchuan Earthquake Reconstruction Project offers humanitarian support to China and raises profile of wood-frame construction
2009	FII responds to growing consumer interest by promoting "green" benefits of B.C. wood products
2010	FII uses Olympic venues to showcase wood use and launch marketing program targeting non-residential sector across North America
2011	FII assumes management of Wood First Initiative to create a "culture of wood" in B.C.
2012	FII scales back its subsidiary in China, and establishes a presence in India to initiate a market development program

Core Business Areas

FII is organized into business units that reflect the corporation's mandate of market development, as show in the following table:

OPERATIONS	
MARKET INITIATIVES	• Research opportunities in new and emerging markets, and initiate early market development activities, with particular emphasis on India • Support industry trade associations in developing and/or expanding markets and market segments for B.C. forest products • Support industry efforts to mitigate market access and plant health issues • On behalf of the forest sector, manage outreach and relationship building in China with Chinese authorities and central government agencies
WOOD FIRST	• Champion the Province's Wood First initiative and encourage expanded wood use in B.C. • Encourage the development of a pro-wood culture in B.C., and position B.C. as a leader in wood innovation • Encourage product innovation and the introduction of new wood building systems • Encourage a robust value-added sector in B.C., through enhanced capacity and competitiveness
MARKET OUTREACH	• Provide timely and factual information regarding B.C. forest products and forest practices • Champion science- and fact-based approaches to communicate the merits of wood and wood-based construction in a green building and climate change context • Collaborate with forest sector stakeholders to encourage consistent and compelling messages in the context of product and building innovations • Monitor and advocate for codes, standards and policies that recognize the merits of wood and B.C. forest products
CORPORATE SERVICES	
FINANCE & ADMINISTRATION	• Ensure financial management and reporting meet or exceed government standards • Provide Human Resources, IT and office services to meet organizational needs • Oversee budget and planning controls • Supervise financial and administrative practices in subsidiary companies in China and India
CORPORATE RELATIONS	• Compile and share export data and analysis on market trends • Support government and industry trade and investment initiatives • Provide corporate communication and analytical services to meet internal and external needs

2011/12 Expenditures and 2012/13 Budget

FII operates on the basis of an annual funding allocation from the Ministry of Jobs, Tourism and Skills Training. The actual expenditures incurred for fiscal 2011/12 as compared to the current year 2012/13 projected budget are provided below:

Statement of funding and expenditures by program
Comparison to budget and prior year

	2011/12 Actual	2012/13 Budget
Funding		
Receipts - Province of B.C.	$ 20,520[2]	$ 17,800
Receipts - Wenchuan Reconstruction	117	-
Receipts - Government - Other	284	-
Investment Income	38	-
Other Revenue	762	190
Total Funding	$ 21,721	$ 17,990
Expenditures		
FII Vancouver Market Outreach & Initiatives	15,474	13,890
FII China Market Initiatives	2,901	1,850
China - Wenchuan Reconstruction	880	-
China - Demonstration Projects	1,015	-
FII India Initiative	-	800
Corporate Services	1,238	1,260
Amortization	193	190
Total Expenditures	$ 21,701	$ 17,990
Excess of Funding Over Expenditures	$ 20	$ -
Transfer from Contributed Surplus	-	-
Unrestricted Surplus	$ 20	$ -

[2] Actual receipts from the Province were $20.8 million in 2011/12, less $0.28 million in post year-end turn backs of unspent advances from funding recipients.

Revenue

In 2011/12, FII received funding of $20.8 million from the Government of B.C. consisting of base funding of $18.8 million and additional unplanned funding of $2 million as a donation towards the Japan tsunami reconstruction projects. FII received an additional $284,000 from Beichuan Municipality for a Wenchuan Earthquake reconstruction project and $762,000 from Canada Wood Group for commercially oriented demonstration projects in China.

Expenditures

In addition to expenditures of $1.9 million for completion of earthquake reconstruction and other demonstration work in China in 2011/12, FII spent $15.5 million in delivering a variety of market outreach and market development initiatives in Asia, the U.S., Canada and Europe. This amount included $7.6 million committed to partly or fully pay for product and market development activities proposed and ultimately delivered by trade associations. Amounts also included $896,000 directed to the Business Innovation Program by which BC Wood Specialties Group, FPInnovations and the Centre for Advanced Wood Processing at UBC supported value-added firms to improve their business planning, product design, manufacturing and marketing. A further $747,000 was directed at research to support the Province's emerging Wood First priorities, such as development of cross-laminated timber technology and manufacturing capacity.

Together, these combined expenditures leveraged over $15.06 million in contributions from industry and the federal government. Of this amount, $14.75 million was leveraged through cost-sharing under FII's funded recipient programs as follows:

FII share:	34%
Natural Resources Canada and other government agencies share:	45%
Forest industry share:	21%

An additional $315,000 was leveraged through activities directly delivered by FII staff.

FII's subsidiary in China, FII Consulting (Shanghai) Company Ltd., spend $2.9 million on market development activities, including completion of the Wenchuan Earthquake reconstruction projects.

Market Priorities

FII's revenues and expenditures are expected to decrease by roughly $3.9 million from $21.7 million this past year to a budgeted $17.8 million for fiscal 2012/13. This reflects the one-time nature of the Province's $2 million donation for tsunami reconstruction in Japan which was included in last year's budget, and the end of Provincial and Federal funding for Wenchuan Earthquake and other reconstruction projects in China.

FII will continue to rely on trade associations to develop and deliver the bulk of market development programs in key markets with internally directed initiatives augmenting these efforts in select areas. In China, with the completion of the final demonstration projects in 2012, FII's focus will shift to building deeper and broader relationships with Chinese government officials at all levels, as well as state-owned development companies.

A significant operational change is underway as FII has established a subsidiary company in Mumbai, India, setting up an office in concert with trade and investment representatives of the Ministry of Jobs, Tourism and Skills Training. Current budget projections for FII's India market initiatives are $645,000 with an additional $600,000 of leveraged funding through a cost-share agreement with Natural Resources Canada.

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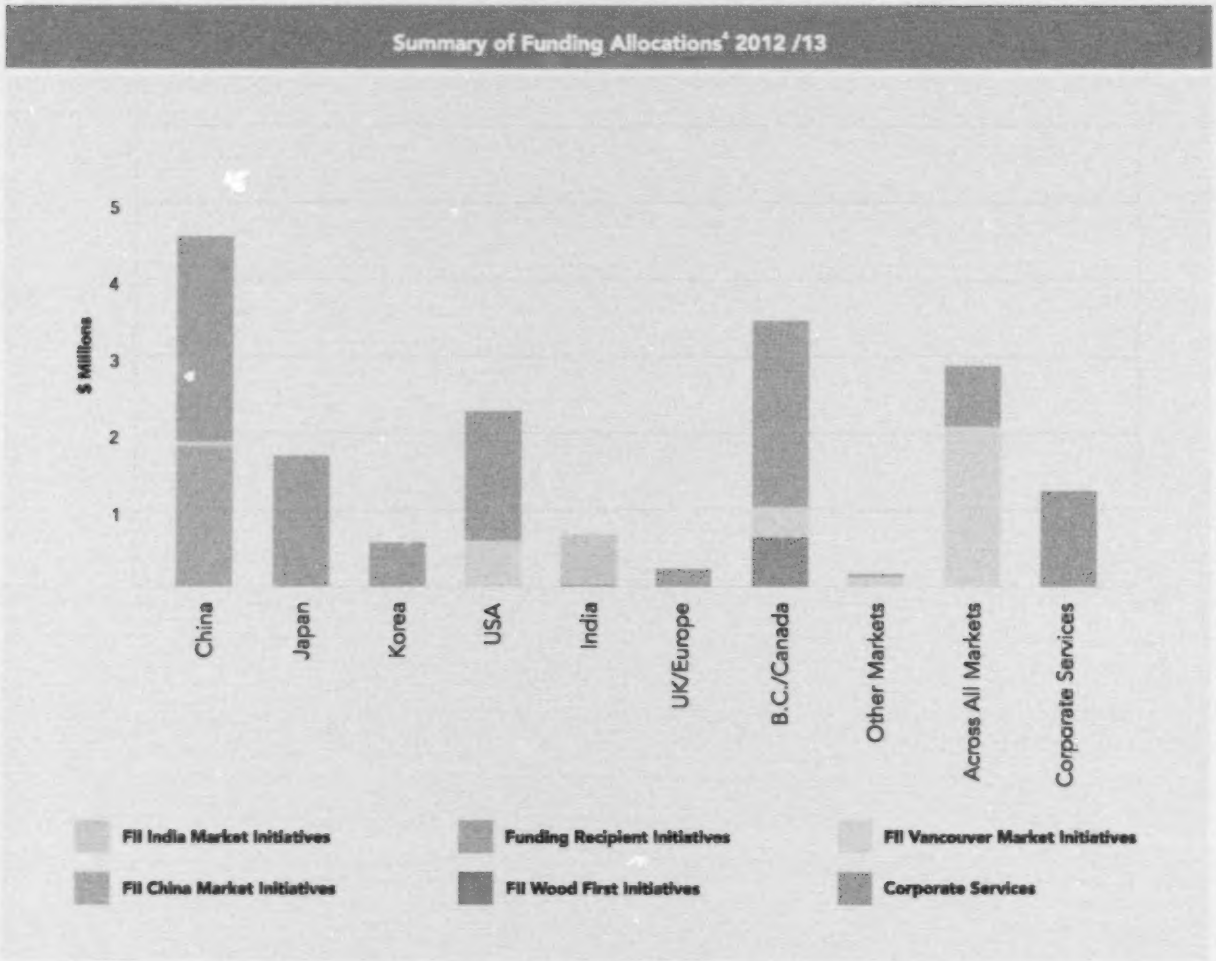
[3] Japan reconstruction funds were subsequently granted to Canada Wood Group, which is delivering the reconstruction project on behalf of the government-industry partnership.

A summary of projected funding allocations by region for 2012/13 is presented below:



[4] *Funding Recipient Initiative* refers to funding provided to industry associations and other groups to carry out market development activities that they propose. *Funding Recipient Initiatives* includes $2.3 million directed to Wood First Initiatives and included under the B.C./Canada category. Amounts include associated program administration.
FII Vancouver Market Initiatives refers to funding for product and market development activities managed directly by FII staff, including market research, market outreach and demonstration projects.
FII China Market Initiatives refers to activities directly managed by FII Consulting (Shanghai) Co. Ltd. in China.
FII India Market Initiatives refers to funding activities to establish a subsidiary company in Mumbai, India and conduct market research managed by FII.
FII Wood First Initiatives refers to funding for FII's internally initiated projects related to Wood First, such as commissioning technical studies of cross-laminated timber.
Corporate Services refers to FII's accounting and financial reporting and general office functions that support all program delivery.

Business Results

FII employs a comprehensive suite of measures to track performance by its employees and by the organizations to which it provides funding. High-level performance measures are identified in FII's annual Service Plan (at http://www.bcfii.ca/wp-content/uploads/aboutus/corporate/corporate-reports/archive-of-corporate-reports/FII-Service-Plan-2012.pdf).
A full description of FII's detailed performance management framework and the specific performance measures tracked for FII's funding recipients can be found in the FII Performance Management Framework, available on the FII website: www.bcfii.ca/aboutus.

FII's 2011/12 results and 2012/13 – 2014/15 performance targets are summarized below:

	PERFORMANCE MEASURE	2009/10 ACTUAL	2010/11 ACTUAL	2011/12 TARGET/ ACTUAL	TARGET		
					2012/13	2013/14	2014/15
A	B.C. softwood lumber exports to priority Asia Pacific markets (thousands of cubic metres), consisting of:[5]	4,725	7,159	8,886/9,930 (Exceeded)	11,725	13,662	15,900
	China	2,589	4,562	6,300/7,315[6] (Exceeded)	8,900	10,700	12,800
	Japan[6]	1,986	2,448	2,400/2,451 (Exceeded)	2,650	2,775	2,900
	South Korea[7]	150	153	186/164 (Not achieved)	175	187	200
B	Incremental sales generated in U.S. non-residential market (millions of board feet)	180	298	370/226[8] (Not achieved)	400	500	600
C	Incremental sales generated in B.C. non-residential market (millions of board feet)	52	61	62/69 (Exceeded)	75	80	88
D	Percent of customers who feel that choosing products from B.C. (Canada) is a good choice for the environment	n/a	98%	n/a / 98%[10]	90%	n/a	90%
E	Timeliness of annual funding cycle for trade associations, research institutes and universities	Competitive funding process is completed by April 1	Competitive funding process is completed by April 1	Competitive funding process is completed by April 1 / Process completed before April 1 (Exceeded)	Competitive funding process is completed by April 1	Competitive funding process is completed by April 1	Competitive funding process is completed by April 1

[5] Performance Measure A is broadly influenced by global economic conditions beyond the control or direct influence of FII or the provincial government; however, export data provide a reliable indicator of overall progress by FII and its funding recipients in fostering market diversification.

[6] It should be noted that many specialty products formerly shipped from B.C. to Japan (e.g., Douglas-fir, cedar, Sitka spruce) are now often exported from B.C. to China, manufactured into value-added products, and re-exported to Japan. This is increasing B.C. export volumes to China while reducing shipments from B.C. to Japan. The trend is expected to continue and is factored into export targets.

[7] Lumber consumed in structural applications (residential, non-residential and additions).

[8] 6.3 million m^3 was the target set for 2011/12 in the February 2010 FII Service Plan. This converts to approximately 4 billion board feet (volume target for China per the 2011/12 Shareholder's Letter of Expectations for FII) using a net cubic meter to board foot factor of 0.628. Actual results equate to 4.59 billion board feet.

[9] Figures are only for projects under construction or completed; projects representing an additional 274 million board feet were in the planning stages during 2011/12, but were not yet started, and so were not included in the 2011/12 figures.

[10] The survey was carried out a year earlier than forecast due to a review of related federal programs, as well as a range of shifting forestry and natural resource issues that have raised Canada's and B.C.'s profile in international markets.

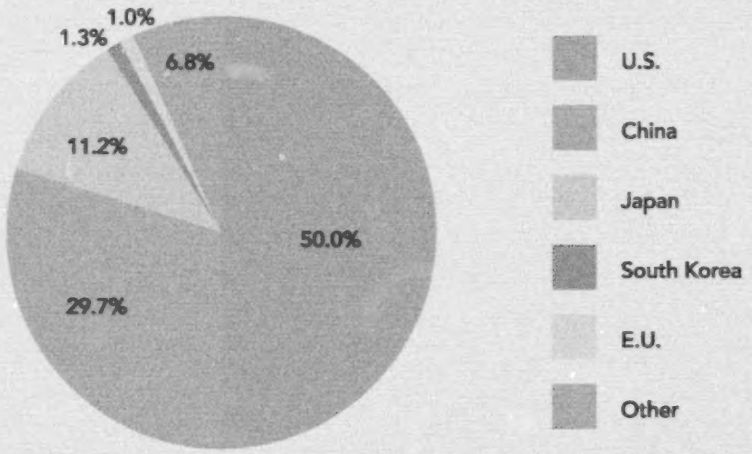
Global Market Trends

The recovery in global wood product demand continued in 2011, but it was affected by the Euro zone's sovereign debt crisis. The crisis is holding back economic growth in Europe, and having an impact on global trade and the economic outlook for wood products demand in the U.S. and Asia.

Wood products demand in Asian markets, including Japan, grew at a faster rate than in the U.S. and Europe last year. While the economic outlook is more positive in the U.S. than in Europe, wood demand from the U.S. housing market is still hampered by a high inventory of unsold homes that continues to depress house prices. Building material demand in Japan has been comparatively strong as a result of the infrastructure damage caused by the March 2011 earthquake and tsunami.

China's demand for raw materials, including wood, significantly increased again in 2011, with much of this demand satisfied through imports. In the first half of 2012, growth in China and other Asian economies slowed as the impact of the global financial crisis dampened the region's exports, especially to Europe, affecting income growth rates and disposable income.

2011 Total Sales of B.C. Softwood Products to World Markets[11] (24.7 Million m^3)



2011 Sales and Market Share of B.C. Softwood Products in Key Markets[12]

United States
104 Million m^3
B.C. Sales 12.4 million m^3

China
151.3 Million m^3
B.C. Sales 7.3 million m^3

Japan
23.5 Million m^3
B.C. Sales 2.8 million m^3

South Korea
9.9 Million m^3
B.C. Sales 0.3 million m^3

European Union
144.2 Million m^3
B.C. Sales 0.2 million m^3

[11] Based on sales of five softwood products (lumber, plywood, OSB, particleboard and MDF).

[12] B.C.'s share of total domestic consumption of softwood products in each market. The size of the circles is proportional to the total size of each market for the five softwood product lines. China consumption data includes hardwood plywood.

Markets for B.C. Wood Products

In 2011 B.C. forest product exports continued to recover from the global financial crisis and the downturn in the U.S. housing market. B.C. exported 22.8 million m^3 of softwood lumber in 2011, up 9 per cent from 20.9 million m^3 in 2010. For the first time, offshore exports surpassed the volume of lumber shipped to the U.S. The volume of lumber exported to the U.S. declined by almost 9 per cent to 11.2 million m^3, while exports to other markets increased by 35 per cent to 11.6 million m^3. Much of this growth in lumber exports was in China, which accounted for 32 per cent of B.C.'s total lumber export volume in 2011 compared to 49 per cent for the U.S. market.

The U.S. housing market continued its gradual recovery in 2011 and the first half of 2012, lifting prices and providing some modest relief for the B.C. forest products sector. Housing starts were 609,000 in 2011 compared to 587,000 in 2010. The inventory of existing homes is down and the number of home foreclosures declined in 2011, but there is a substantial "shadow" inventory of homes owned by financial institutions and continuing foreclosures. The recovery in new home construction will remain slow until the oversupply in existing homes is absorbed.

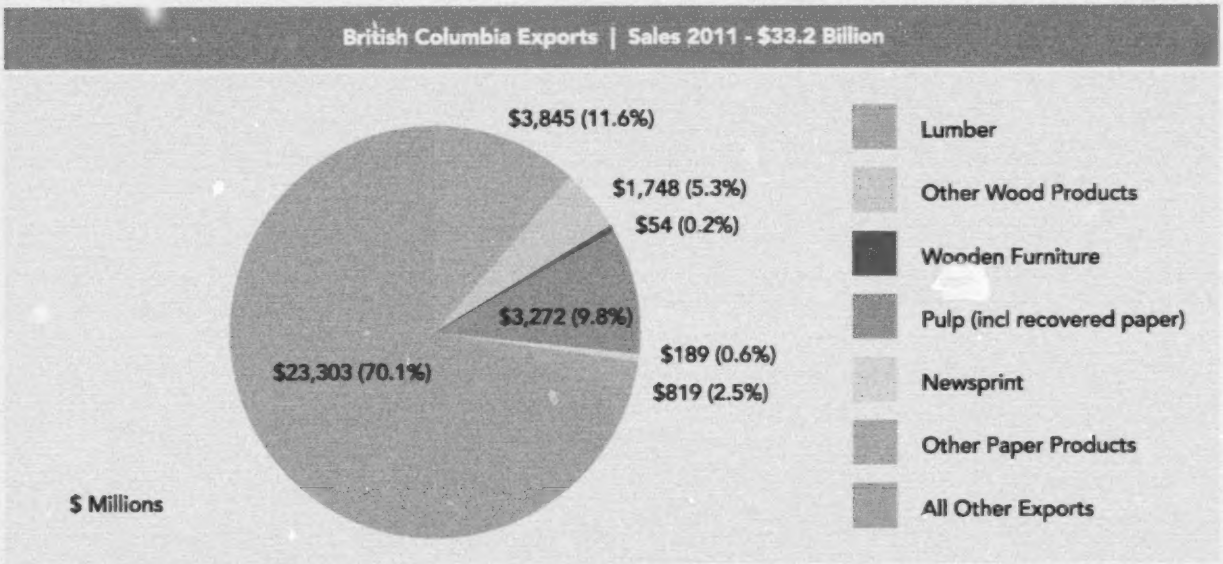
China's growing demand for wood products benefited all exporters of logs, lumber and panels in 2011. The volume of lumber exported from B.C. to China rose 62 per cent from the previous year to 7.2 million m^3. Led by B.C. exports, Canada was again China's largest softwood lumber supplier in 2011, followed by Russia and the U.S.

In Japan there was relatively little reconstruction in the areas destroyed by the March 2011 tsunami, but lumber demand is expected to increase in the next two to three years. B.C. exports of softwood lumber were almost 2.5 million m^3, up 0.2 per cent compared to the previous year. Oriented strand board (OSB) and plywood were in high demand due to heavy losses of capacity in the Japanese panel sector following the tsunami. Softwood plywood shortages and high plywood prices in the second quarter of 2011 contributed to Japan's record OSB imports of 300,000 m^3 in 2011. B.C. exported 211,000 m^3 of OSB to Japan in 2011, up from 155,000 m^3 in 2010.

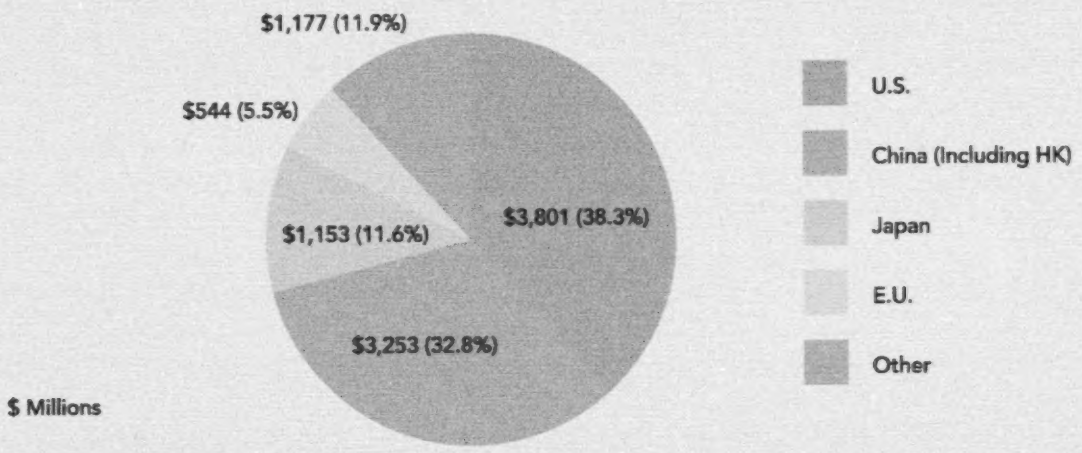
Exports of structural lumber to Korea were up 28 per cent over 2010 driven by growing demand in the wood housing sector as well as the demand for SPF lumber to supply Korea's growing treated wood sector. B.C. is Korea's main OSB supplier, although B.C. exports fell by 26 per cent to 34,000 m^3 in 2011.

Europe's softwood lumber demand is still recovering from the housing market collapse in several countries. B.C.'s softwood lumber exports (235,000 m^3) to Europe were almost unchanged from the previous year, but hemlock and hem-fir lumber exports increased due to stronger demand in Italy and Germany. B.C. exports to the U.K. grew by 2.7 per cent despite a slowdown in the housing market.

For a detailed analysis of global and B.C. trends in export markets, please refer to FII's companion documents, *British Columbia Forest Products Trends Analysis in Export Markets 2011 Volume 1 (Global Market Overview and B.C. Exports)* and *Volume 2 (Export Market Summaries)* available for downloading at www.bcfii.ca/tools-resources/market-research/trend-data-stats/.

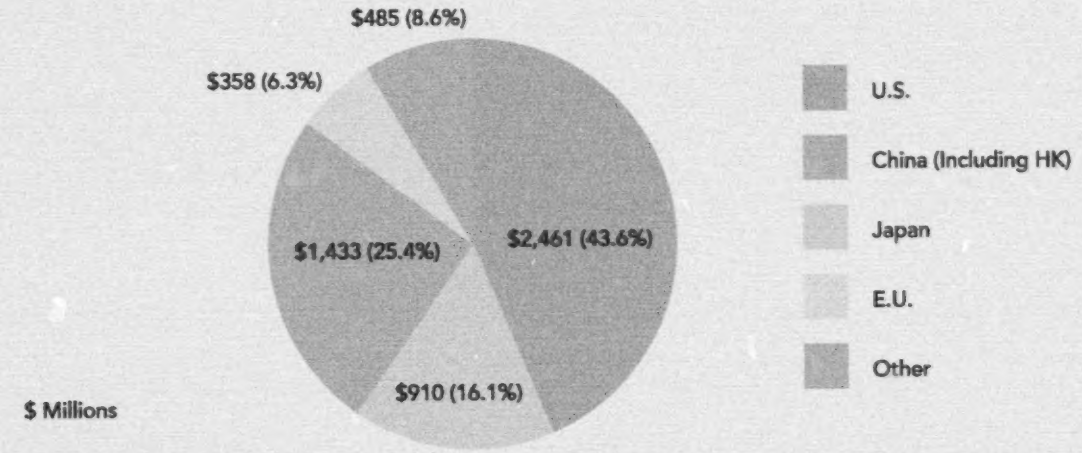


British Columbia Forest Product Exports | Sales 2011 - $9.9 Billion



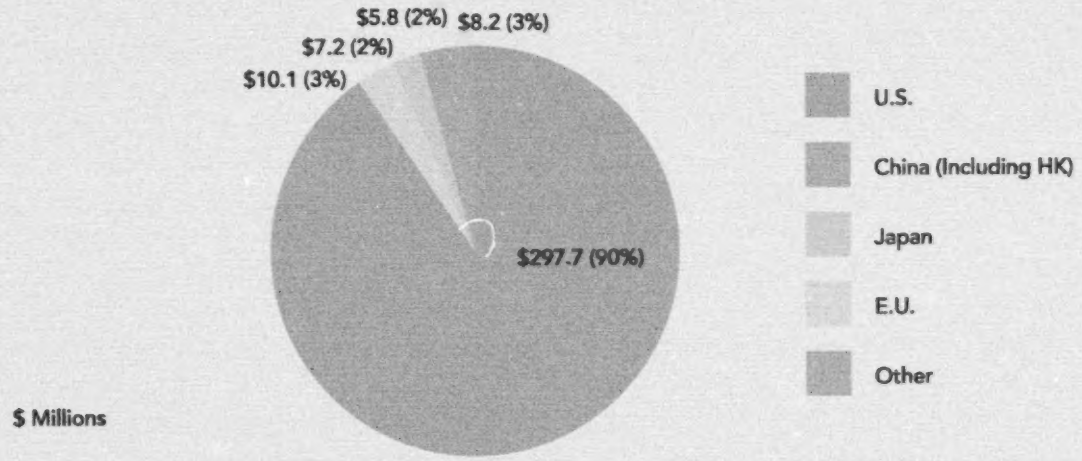
$ Millions

British Columbia Solid Wood (including Wooden Furniture) Exports | Sales 2011 - $5.6 Billion



$ Millions

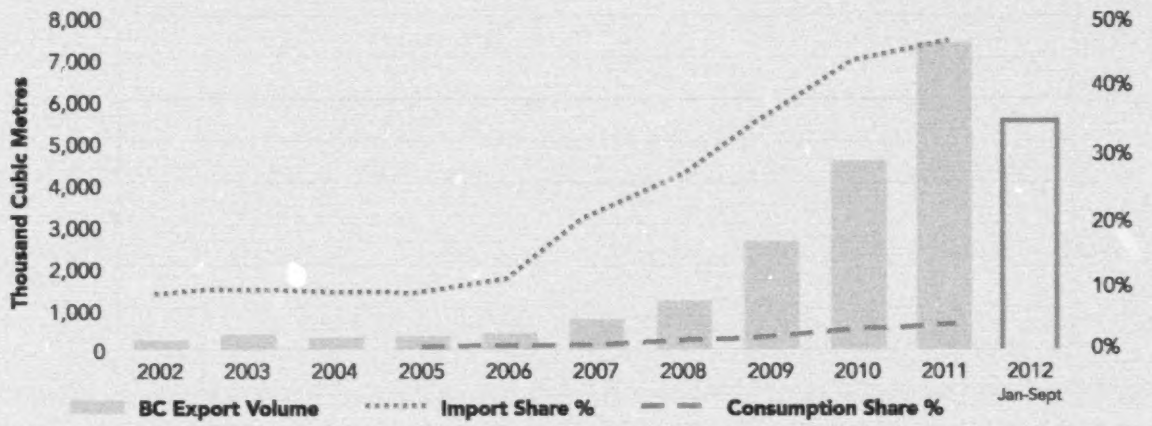
British Columbia Value-Added (including Wooden Furniture) Exports | Sales 2011 - $329 Million



$ Millions

CHINA

B.C. Softwood Commodity Product Sales in China (Softwood lumber, plywood, OSB, MDF and particleboard)



Market Type

- B.C.'s second largest export market for softwood lumber, after the United States
- Significant market for softwood lumber in industrial applications with large potential to consume higher-grade lumber in wood-frame construction

B.C. Position

- B.C. is China's largest supplier of softwood lumber and a holds a 46.4% share of total softwood commodity product imports

Export Sales

- 2011: 7.4 million m³ of commodity wood product valued at $1.1 billion
- 2012 (through September): 5.5 million m³ valued at $759 million

Market Overview

China's economy continued to grow rapidly in 2011 (up 9.2 per cent), despite an end to fiscal stimulus. During the year, the government tightened regulations to preclude a real estate price bubble which slowed both commercial construction and the housing market; however, demand for construction materials and home furnishings remained relatively strong because of the government's "affordable housing" construction program. China's softwood lumber consumption was an estimated 31.2 million m³ in 2011, up 29 per cent from the previous year.

Competitive prices continue to be important in the large volume, end-use markets of general construction, concrete forming and packaging. Fast growth in transportation infrastructure also contributed to increased demand in 2011. Domestic production was limited by log availability, leading to the dramatic increase in lumber imports in 2011. China reported 14.9 million m³ of softwood lumber imports for 2011, up 59 per cent from 2010.

Premier Christy Clark, Vice Minister Qiu Baoxing of China's Ministry of Housing and Urban-Rural Development and Federal Minister of Natural Resources Joe Oliver, Nov. 9, 2011 in Beijing

Market Strategy

China is a priority market for the B.C. industry and for FII. Following a transition in the FII China operations in 2011/12, the industry, through Canada Wood Group, has assumed greater responsibility for program implementation and on-ground support. FII is maintaining a strong presence to manage relations with government authorities and state-owned development companies in support of the overall market development strategy. Canada Wood Group and FII China have formed a close partnership to encourage adoption of wood building systems and structural and appearance grade products through training, research and promotions. The primary focus in China is to increase the use of wood in mid-rise and multi-family construction, with activities focused on wood "in-fill" in high-rise construction, wood-truss roofing, wood-hybrid construction and other high potential structural wood applications. Maintaining traction among key influencers such as larger developers and builders remains a priority, encouraging further demand as Chinese companies realise the benefits of wood-frame construction. Canada Wood Group is increasing support for training as construction quality assurance is critical to ensure that early projects are completed to acceptable standards.

Select Accomplishments 2011/12

- China's softwood lumber consumption was an estimated 31.2 million m^3 in 2011, up by 29 per cent from the previous year. B.C. lumber accounted for almost one-quarter (24 per cent) of China's total softwood lumber consumption.
- The Hebei Building Science Research Centre in Shijiazhuang was completed as a demonstration project in 2011 with assistance from both FII China and Canada Wood Group. The Centre is a hybrid wood-concrete structure and features the longest wood-frame span of any building in China; the Centre is also one of the largest wood-frame buildings in the country.
- Several other projects came to fruition in 2011/12 which increased the profile of B.C. wood products in China and contributed to solid growth rates over the year. Highlights included the completion of the Beichuan, Market Street and Mianyang projects under the Wenchuan Earthquake Reconstruction Initiative. 2011/12 was also a landmark year in that it was the first time that a vocational school has adopted a wood-frame construction college program influenced by, but independent of, the successful Canada Wood College program.
- In 2011/12 the Canada Wood promotional program saw success in widening the influence and impact of the program beyond the core focus of Shanghai/Beijing and the East Coast. For the first time major projects were identified in Heilongjiang and Hainan Provinces which will use wood on a purely commercial basis.
- Government endorsement is very important in sending a message to the construction industry in China. 2011 marked the first time that a government white paper formally recognised wood as a "green building" material. This will have a major influence on the acceptance of wood for future projects in China.

Interior view of the Hebei Government Research Centre, Shijiazhuang, Hebei

Opportunities and Threats for B.C.

- China's wood supply deficit keeps growing. B.C. is expected to remain China's largest softwood lumber supplier as Russia does not (yet) have sufficient sawmill capacity.
- The adoption of wood-frame construction codes by yet another province (Jiangsu) raises the prospects for diversifying end-use markets for B.C. lumber.
- China remains a very price-sensitive market. A change in Russia's log export tariff, as part of the country's accession to the World Trade Organization, could significantly shift global softwood trade flows. At this point the impact on China's imports is unclear.
- Declining volumes of economically viable Mountain Pine Beetle-killed fibre in the B.C. interior may constrain future growth of BC lumber shipments to China.
- The Chinese government has implemented policies designed to slow the growth of housing prices. Large developers such as Vanke and SIC that have already built wood-frame structures are waiting for the housing market to improve before committing to new projects.

Focus in 2012/13

The program in 2012/13 builds on momentum from previous years' activities and focuses on quality support, expansion of training programs and resolution of remaining market access issues. Canada Wood Group is recruiting new staff to bolster its quality support and training programs to ensure that local specifiers, builders and developers are best equipped to use wood in their projects. Also underway is targeted market research focused on increasing acceptance of wood products in public buildings, and investigating China's distribution network to best understand end uses for Canadian lumber.

Further work on code revisions for treated wood in construction and development of a manual for fire safety in timber buildings is also underway. The value-added sector and coastal product manufacturers will be promoting B.C. products at shows in Shanghai, Beijing, Shenzen and Guangzhou. FII is supporting the industry through hosting of inbound and outbound missions to showcase wood building systems and increase media profile for wood construction and architectural uses in China.

Demonstration projects have proven to be an excellent way to deepen relations with Chinese government agencies and to educate regulators, policy-makers and builders on the advantages of wood-frame construction. In 2012/13, FII China will complete its final two demonstration projects:

- The TEDA – Tianjin Apartment Project, China first four-storey all wood-frame structure, will be completed by the end of the calendar year.
- The Sanlin Affordable Housing Project will demonstrate in-fill partition walls, a wood-truss roof on new buildings, and a 1+3 (concrete plus wood) hybrid public building.

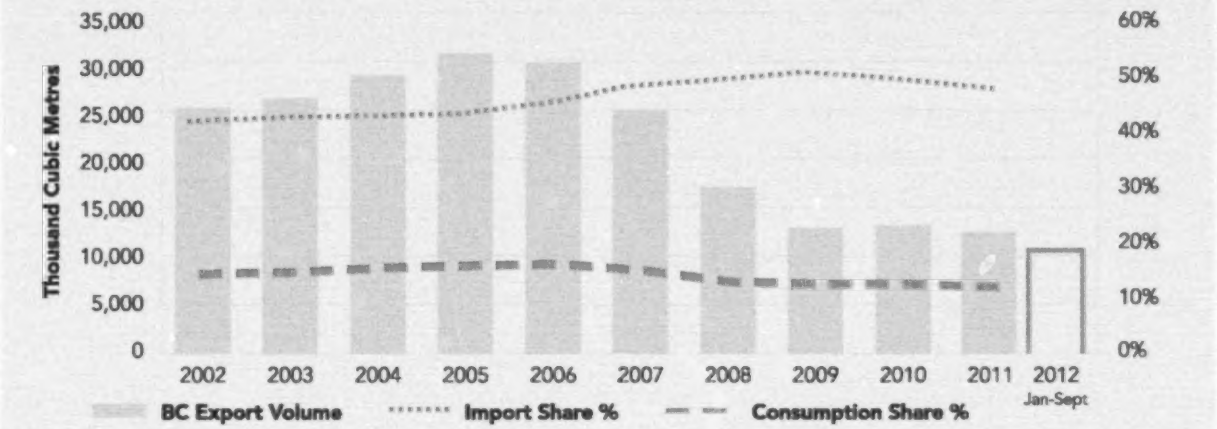
FII China will renew efforts to promote the unique building advantages of each demonstration project to influential government agencies and state-owned developers. In conjunction with these efforts, FII China will invite Chinese officials to visit British Columbia to better understand the market potential for wood-frame construction.

As part of the government relations file, FII China has renewed relations with the Ministry of Housing and Urban Rural Development in Jiangsu Province, and hopes to enter into an MOU with Shandong Province Ministry of Tourism to promote eco-friendly wood-frame buildings.

Sanlin affordable housing project, Shanghai

UNITED STATES

B.C. Softwood Commodity Product Sales in U.S. (Softwood lumber, plywood, OSB, MDF and particleboard)



Market Type

- B.C.'s largest market for wood products
- Mature single-family housing sector dominated by wood-frame construction
- Large non-residential construction sector with minimal use of wood
- Significant multi-story, multi-family housing construction, with limited use of wood

B.C. Position

- Market leader with 46.7% share of total softwood commodity product imports in 2011

Export Sales

- 2011: 12.4 million m^3 of commodity wood products valued at $1.9 billion
- 2012 (through September): 10.4 million m^3 valued at $1.8 billion

Market Overview

The U.S. economy continued its slow recovery in 2011 with GDP growing 1.7 per cent, down from a growth rate of 3 per cent in 2010. Job growth remained weak, but unemployment stabilized. The housing sector outperformed the general economy, with housing starts of 608,800, up from 586,900 in 2010 or growth of 3.7 per cent. Continued high levels of consumer debt had an impact on the sector, as multi-family starts increased, while single family starts declined. More households decided or were forced by foreclosure, to rent, and the homeownership rate declined by 0.7 percentage points to 66.1 per cent in 2011.

U.S. consumption of softwood lumber was 77.7 million m^3 in 2011, up by 4.8 per cent from 2010. U.S. mills profited from the increased demand, as their softwood lumber production grew by 8.5 per cent to 60.1 million m^3. B.C.'s share of imports in the U.S. remained flat or declined slightly in all products except OSB.

The 2006 Softwood Lumber Agreement was extended in January 2012 by two years to October 2015, providing stability in terms of market access. Even though exports to the U.S. have been weak since the downturn in the U.S. housing market, the U.S. still accounts for almost half of all B.C. softwood commodity exports.

Eldorado High School, Arkansas

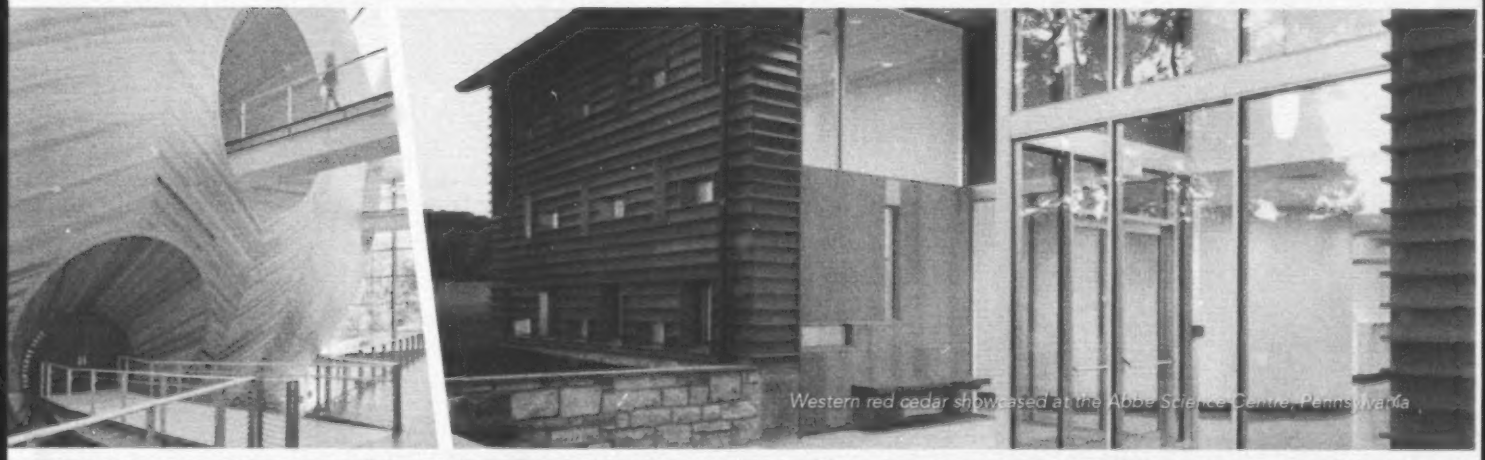
Market Strategy

In the U.S., FII places a priority on areas where there is a significant potential to grow market share and a strong industry commitment to support and co-fund activities. In 2012/13, FII investments are focused on non-residential construction which presents substantial growth opportunities, particularly as green building concepts take hold in that segment. Delivered by the Wood Products Council with funding from FII, Natural Resources Canada, the Binational Softwood Lumber Council and the Softwood Lumber Board, the U.S. non-residential program is focused on increasing the total volume of wood used in multi-storey commercial and industrial buildings, and increasingly, in multi-storey/multi-unit residential developments. In 2012/13, FII is supporting the expansion of the program into Texas, Portland and Seattle as momentum for wood use in the non-residential sector grows. Increasing the focus on nationwide promotions in the U.S. is allowing the program to support large national accounts (e.g., chain stores and multi-city retail developments) with multi-building developments planned or underway.

FII is also funding development and promotion of the "tall wood calculator," a tool that allows engineers to quickly design tall wood wall assemblies and in particular Cross-Laminated Timber (CLT) assemblies. This builds on the international profile of the Tall Wood Study completed in B.C. in 2011/12. Innovative promotions also include the "5-over-1" concept to encourage 5 storeys of wood built over a concrete ground floor. Ideas like these expand the thinking in the non-residential sector and encourage new approaches that allow more wood use. During the year, FII is continuing to support value-added and cedar products initiatives focused on segments that have maintained or exceeded pre-crisis consumption levels, such as the resort home market and repair and remodelling segments.

Select Accomplishments 2011/12

- Tradeshow promotional activity undertaken by BC Wood Specialties Group and Western Red Cedar Lumber Association for both residential and non-residential sectors created significant new opportunities for B.C. producers to bid on projects in Hawaii, Texas, Colorado and Arizona. Project bidding opportunities were over $2.75 million through the tradeshow activity.
- 14,483 individuals received training in using wood products in their building projects via Wood Solutions Fairs, lunch-and-learn workshops and educational seminars run in partnership with various associations of architects and engineers.
- Program staff provided one-on-one project support, technical advice and follow-up through over 6,300 interventions with designers, engineers, architects and other key influencers. These interventions provided support for over 246 separate building projects in 2011/12.
- New revenue sources for the non-residential program were identified through in-depth technical engineering workshops which were sold out, and targets for project conversions and value of wood sales were exceeded. The program also undertook sold out mid-rise site tours that had a significant impact on project conversion rates. These tours will be a larger part of the program in 2012/13 as a result. New segments were also targeted with specific outreach and promotions including CLT systems and panelized roof promotions.



Western red cedar showcased at the Agbe Science Centre, Pennsylvania

Opportunities and Threats for B.C.

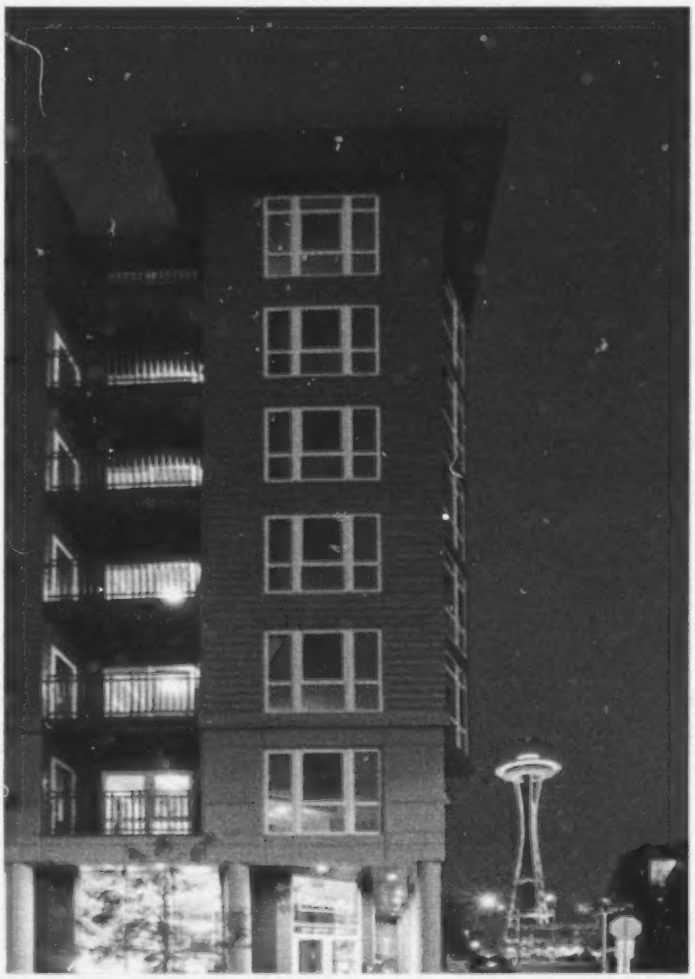
- Green building certification and the development of green building materials continued to grow in the U.S. in 2011 despite the relatively weak economic conditions. McGraw Hill estimates that green homes will account for 29 per cent to 38 per cent of total new residential construction by 2016. Green construction in the non-residential sector is also growing. B.C., as a supplier of certified "green" wood products, is well positioned to take advantage of this trend.
- U.S. economic growth in 2012 may be hampered by the continuing Euro crisis and the resulting negative impact on global economic growth and trade, however this may be partially offset by U.S. fiscal stimulus and the generally favourable credit conditions that tend to occur during presidential election years. While expected to be modest, economic growth in the U.S. should translate into a continuing recovery in housing starts.
- Overcapacity in Europe in softwood lumber production, combined with a weakened housing sector due to the Euro crisis, and favourable exchange rates (lower value of Euro) may increase exports to U.S. regions where European softwood is competitive (east coast markets).
- Improving cost competitiveness of U.S. manufacturing relative to China may increase wood demand in remanufacturing and industrial end-use markets, helping to strengthen demand and prices.
- The use of engineered wood products continues to grow in the non-residential sector, implying greater market awareness and acceptance by developers and builders.

Focus in 2012/13

In 2011/12 the U.S. WoodWorks program began a transition to a new funding and administration model with involvement of the Softwood Lumber Board. Increased industry funding and a new management team have led to further enhancements of the program, the impacts of which will be seen in 2012/13 and beyond. The objective remains to increase project conversions from concrete and steel to wood, especially in mid-rise construction, schools and commercial/retail environments. Increased focus on the multi-storey/multi-unit residential market also creates significant opportunities, as the program broadens its support for all large scale developments that can use wood.

Encouraging adoption and commercialisation of CLT through tools, education and one-on-one support is a priority as the international profile of this product continues to grow. Increasing adoption of engineered wood solutions for panelized roof systems is also a major program goal in 2012/13, through activities such as case studies and guides for panelized roof structures that may also incorporate CLT.

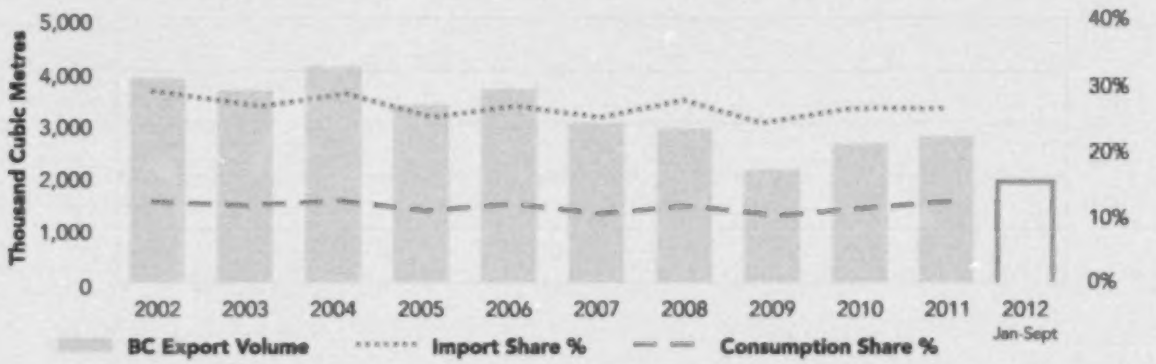
B.C's value-added firms and cedar producers remained focused on maintaining key U.S. markets for resort housing, and the repair and remodelling industry.



Marselle condominium, Seattle, Washington

JAPAN

B.C. Softwood Commodity Product Sales in Japan (Softwood lumber, plywood, OSB, MDF and particleboard)



Market Type

- Third largest market for B.C. wood products in volume, but preference for higher quality wood products generates higher profit margins for B.C. exporters
- Mature over-all housing sector, but opportunities in hybrid construction and "green building"

B.C. Position

- Market leader with 25.9% share of softwood commodity product imports

Export Sales

- 2011: 2.8 million m^3 of commodity wood products valued at $745 million
- 2012 (through September): 1.9 million m^3 valued at $521 million

Market Overview

Government stimulus was helping Japan's economy recover until the massive East Japan earthquake hit in March 2011. The country's industrial production and private demand contracted sharply after the disaster; however, the economy started to rebound in May 2011 which helped limit the year's GDP decline to 0.9 per cent as compared to 2010. By early 2012, GDP had recovered to almost pre-earthquake levels.

Japan's softwood lumber consumption was 15.7 million m^3 in 2011, up 5.8 per cent after a similar increase in the previous year. There has been relatively little reconstruction in the areas destroyed by the tsunami, but lumber demand is expected to increase in the next two to three years. In 2011, housing starts increased by 2.6 per cent to 834,117 units. Starts in platform-frame construction increased by 2.2 per cent and its share of wooden starts increased to 21.1 per cent. Domestic production of softwood lumber grew by 5.1 per cent, to 9.2 million m^3.

2011 saw little change in B.C.'s volume of softwood lumber sales to Japan. However, B.C.'s share of Japan's total imports declined from 39.8 per cent in 2010 to 37.3 per cent, primarily due to increased imports from Europe.

APA booth at the Kenzai Show, 2011

Market Strategy

Japan is a mature market for many wood products and FII continues to work with the industry to develop niche opportunities in elderly care facilities, post-and-beam and 2x4 wood-frame construction, and value-added products. On the panel side, 2011/12 saw a significant increase in short-term demand for panel products in Japan as local production capacity was negatively impacted by the earthquake and tsunami. With funding from FII and NRCan, APA – The Engineered Wood Association has been working for some years to increase acceptance of OSB relative to other panel products and this led to increases in shipments following the disaster.

While cedar and hemlock demand has sagged in the medium term due to overall economic conditions in Japan, prospects are good in the home building market, particularly as the focus shifts to high-end elderly care facilities. The B.C. industry has worked to stimulate changes in building and fire codes and standards to accommodate the use of these important coastal species. Construction guides have been completed for some products and further testing is underway for applications of cedar, hemlock and OSB to ensure B.C. maintains its position as a preferred supplier.

On the value-added front, the "Living and Building with Wood" strategy led by BC Wood Specialties Group is increasing the profile of B.C.'s high-end design-led architectural, furniture and millwork products in Japan. This effort has generated over $6 million in new sales through the related tradeshow program, in which Japanese designers and architects are encouraged to use innovative architectural and interior products.

In addition to sector and product-specific approaches, the market strategy for Japan in 2012/13 also includes delivering on the $4.5 million Canada Tohoku Reconstruction Project. This effort to build wood frame legacy projects in the tsunami disaster zone is being led by Canada Wood Group, with contributions of $2 million each from the B.C. Government and the Government of Canada, and a further $500,000 from industry.

Select Accomplishments 2011/12

- Canada Wood Group has been growing the application of 2x4 building systems as "fireproof" buildings in non-residential segments ("fireproof" being an important distinction in the Japanese code). New approvals for 2x4 non-residential buildings that are designated under the "fireproof" category increased by 8 per cent.
- In 2011/12 a review indicated that significant progress has been made to introduce Oriented Strand Board (OSB) into the Japanese market with 13 new cases highlighted where non-residential buildings were converted to using OSB. Demand for OSB in Japan was particularly high in 2011 (a record 300,000 m^3, up from 213,000 m^3 in 2010) because of softwood plywood shortages and consequent high prices following the earthquake and tsunami. B.C. exported 211,000 m^3 of OSB to Japan in 2011.
- COFI's publication of a design and builders manual enabled significant growth of 2x4 building systems in elderly care facilities in Japan. Providing tools for builders to easily incorporate wood assemblies in their plans increased the number of approvals for 2x4 elderly facilities by 14 per cent.
- Testing programs for mid-ply wall assemblies in Japan are generating significant progress in securing Japanese regulatory approvals for 2x4 mid-ply walls.
- Over 360,000 people were exposed to B.C. value-added wood promotions through B.C. Wood Specialties Group's tradeshow program.
- Canada Wood Group trained over 900 builders, architects and specifiers to enable them to incorporate wood in their building designs wherever appropriate under the Japan building code.

Forest sector delegation visits Sendai, November 2011

Opportunities and Threats for B.C.

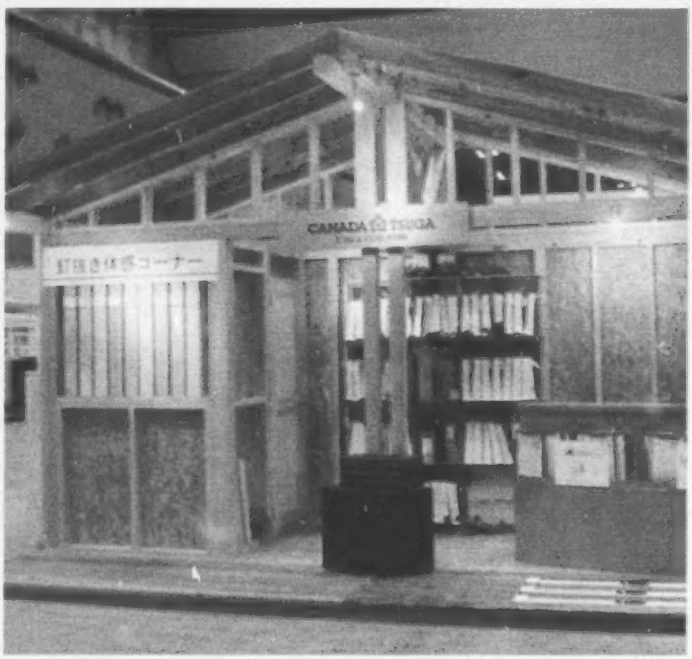
- Reconstruction of homes destroyed by the March 2011 tsunami is expected to take place from 2012 to approximately 2015. For the next two to three years, demand for J-grade lumber from B.C. will be higher than usual.
- The $4.5 million Canada Tohoku Reconstruction initiative to help rebuild the region devastated by the tsunami, which includes $2 million each from the Government of British Columbia and the Government of Canada, and $500,000 from B.C. forest companies, has given the B.C. forest industry a very high profile in Japan and will support ongoing trade relations[13].
- Japan's Wood First initiative targets increasing wood use in public buildings four-fold, or 800,000 m^3 per year. This will stimulate wood consumption and introduce new building systems and products, such as cross-laminated timber.
- Significantly, the Japanese government's funding focus in forestry has shifted from promoting domestic wood use to forest restoration and reconstruction in the destroyed areas. This may reduce domestic competition for B.C. wood products.
- New government policies are making it easier for consumers to arrange a mortgage – pushing up over-all demand for new homes – while subsidies for homes built from certified wood are making wood homes more affordable. Combined, these factors will stimulate wood demand in the housing sector.
- A number of trade negotiations may have a favourable impact on B.C. softwood exports to Japan. In particular, a bi-lateral free trade agreement between Canada and Japan would consolidate B.C.'s trading relationships with Japan.

Focus in 2012/13

Increasing technical work and promotion for the non-residential applications of wood-frame construction are a major focus in 2012/13. Work is continuing on mid-ply construction codes and technical research on non-residential assemblies, sheer walls and SPF lumber in post-and-beam applications. This effort is led by the Council of Forest Industries and Coast Forest Products Association. Additionally, technical guides are also underway to support adoption of new systems by builders and technicians. Production of a Canada Tsuga guide will be targeted specifically at non-residential promotion and will augment existing technical support to increase the use of hemlock in building projects. Updates to the *Cedar Book* and other high-end publications will help to showcase innovative use of wood in design and construction.

Inbound missions to Canada will focus on elderly care facilities and multi-unit residential housing, and will help to augment on-the-ground support provided by Canada Wood Group in Japan. These missions will expose both media and developer audiences to the leading edge application of wood technologies in B.C. and Canadian building projects, helping to address any concerns about safety or performance of these products in Japan. BC Wood Specialties Group's value-added program will target promotions on key Japanese tradeshows (e.g., Japan Home Show, Kenzai Show and Reform Fair) to connect B.C. producers with architects and designers.

In 2012/13, Canada Wood Group is also managing the first two reconstruction efforts under the Canada Tohoku Reconstruction Project: a public library and a public market, both located in Natori, Miyagi Prefecture. Canada Wood will work to identify additional reconstruction projects early in 2013.

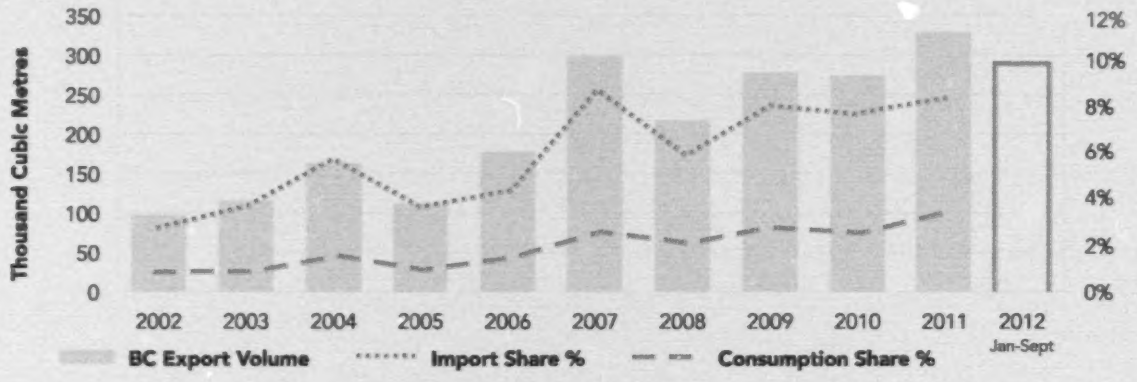


Coast Forest Products Association display booth at the Japan Home Show

[13] Subsequent to the formal announcement of the project, the Province of Alberta contributed $150,000 to the joint initiative. Immediate humanitarian assistance was also provided to the Red Cross by industry ($500,000) and the B.C. Government ($1 million).

SOUTH KOREA

B.C. Softwood Commodity Product Sales in South Korea (Softwood lumber, plywood, OSB, MDF and particleboard)



Market Type

- Fourth largest overseas market for B.C. softwood commodity products after China, Japan and Taiwan
- Growing market for B.C. softwood lumber exports (value of softwood lumber exports up 28% in 2011)
- Strong potential in the residential housing sector

B.C. Position

- 12.5% share of total imports (second after Chile)

Export Sales

- 2011: 333,854 m^3 of commodity wood products valued at $63.9 million
- 2012 (through September): 284,137 m^3 valued at $55.8 million

Market Overview

South Korea's economy remained strong in 2011, although GDP growth slowed to 3.6 per cent due to weakening global demand toward the end of the year. Korea's housing starts soared 42 per cent in 2011 (to 560,000) because of continuing financial support for real estate investors, builders and home buyers and owners. Most starts were in concrete high-rise buildings, but the construction of multi-family apartment buildings and row houses showed the strongest growth. Wooden home starts grew by 6.3 per cent to 10,159 units and accounted for 1.8 per cent of total starts. This number includes traditional post-and-beam construction, but platform-frame construction is estimated to account for the majority of starts.

Korean softwood lumber consumption was estimated at 4.3 million m^3 in 2011, up 15 per cent from 2010. The growth was driven by the strong housing and real estate market, including the growing use of lumber in structural applications and in outdoor uses. B.C. exports of softwood lumber to Korea went up by 28 per cent to 296,000 m^3; however, Chile was the main beneficiary of Korea's increase in demand, surpassing Canada as Korea's largest supplier of softwood lumber in 2011.

Canada Wood Korea delivers hands-on training

Market Strategy

Keeping pace with the Korean government's policies to encourage development outside the main cities is a priority for the Korea market development strategy. The B.C. industry refined its market focus in 2011/12 and is encouraging more mid-rise (3-4 storey) residential and commercial construction and hybrid building systems to dramatically increase B.C. exports to Korea. Working with governmental and quasi-governmental development bodies in Korea is one way in which Canada Wood and the BC Wood Specialties Group are accessing new "town developments" sponsored and managed by the government. Targeting affordable housing projects that have a sustainable focus is another way that the program is focusing on new opportunities for wood use in Korea, including in particular for panelized building systems and pre-built housing solutions.

Ongoing environmental concerns are influencing Korean consumers as the government seeks to avoid "sick house" syndrome, which is linked to closed building systems in concrete and steel. This has created opportunities for multi-family wood-frame residential construction; however some market barriers related to fire and sound insulation remain to be addressed.

Industry is also focused on promoting SPF for wood in-fill walls and floors, both in concrete and post-and-beam buildings.

In 2011 the Korea Forest Service established strict standards for pressure treatment penetration and retention, which have negatively affected demand for SPF in treated wood applications. Addressing these and other market access issues remains a priority for the program in Korea.

Select Accomplishments 2011/12

- After several years of effort, the Canada Wood Group obtained accreditation for wood-frame wall assemblies, surpassing the rigorous fire and sound insulation requirements for multi-unit buildings in the Korean building code. Four new multi-unit developments are now going ahead as a result. Work is continuing on sound requirements in other aspects of the code which need further work before wood-frame is approved in all assemblies.
- Wood-frame construction in Korea started out with single-family homes, but has expanded to duplex homes, row houses and three- to four-storey multi-family buildings. Duplex houses in particular have become prominent after Kwang Jang Architects, with support from Canada Wood Group, introduced them under the name "Peanut House" and published a book describing the experience of building and living in a wood-frame duplex. Interest in Peanut Houses led to the development of a "Peanut Field" in 2011, a housing complex consisting of wood-frame duplexes.
- Korean universities are now offering wood-frame construction training and accredited courses based on Canada Wood Korea curricula and promotions. Four universities have established courses, five more will institute courses in 2012/13 and another seven universities are considering establishing courses. In addition, Canada Wood Korea trained 2,050 builders/architects/engineers in conjunction with local wood associations and universities. To date, the university program and other training courses have shown nearly 3,500 builders and specifiers how to incorporate wood into their projects.
- The market development program for value-added products reported record response to the tradeshow promotion at the 2011 Seoul Living and Design Fair. Significant sales leads of over $4.8 million were generated for high-end designer furniture and wood products from B.C. The BC Wood Specialties Group team will be leveraging this profile in 2012/13 to increase sales.

Canada Wood Korea delivers technical training seminar

Opportunities and Threats for B.C.

- The government is planning further tax incentives and other measures that will make it easier for prospective homebuyers to obtain and pay for mortgages. An increase in rental home construction is also planned. Both policies will increase demand for wood products, including those from B.C., with consensus projections that there is now a long-term sustainable market for softwood lumber.
- Russian sawmilling capacity and shipments to Korea are projected to grow, creating ongoing competition for B.C. exporters.
- New manufacturing standards for pressure-treated wood produced in Korea will shift production away from SPF to other softwood species.
- Canada and Korea are negotiating a free trade agreement that may lead to the elimination of tariffs on softwood lumber and OSB, which would make B.C. products more competitive. However, similar negotiations are underway with Australia and New Zealand, which may lead to offsetting benefits to their wood exporting sectors.
- Korea's national energy plan aims to increase the market share of bioenergy more than four-fold by 2030, offering long-term growth for fuels such as wood pellets.

Focus in 2012/13

The program in Korea for 2012/13 is focused on supporting the local industry with increased training, updated construction and product guides and further work to reduce the remaining code and standards barriers for wood construction. Testing and design workshops will seek to address a major area of concern for Korean consumers and public officials, namely resistance to seismic shocks. Seminars and workshops will also help to promote positive information about the benefits of wood construction in terms of human health and environmental sustainability.

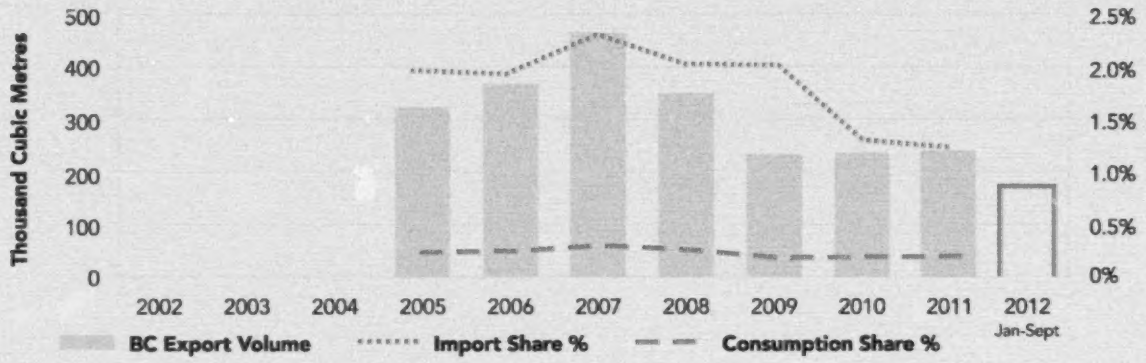
Increased focus on fire testing and continued research into remaining sound issues will open new opportunities for B.C. as Korean customers and influencers can be assured that the products meet stringent standards in the Korean code. Increasing interest in Passive House and "Super E" building technologies is driving some program development as developers need help to understand the detailed technical issues required to adopt sustainable, healthy housing solutions.

FII is supporting a range of promotional activities including a mission to Canada organized by Canada Wood Group that will see up to 20 developers introduced to the benefits of wood construction in elderly care and healthcare facilities. Refreshing the technical literature on wood available in the market is also helping to ensure that local builders and developers are well equipped to adopt wood design in their projects. BC Wood Specialties Group will be promoting the "Living and Building with Wood" concept through the Seoul Living and Design Fair and other local shows. Canada Wood Group support for the Korean Wood Design Awards will lead to the creation of a new category to promote different types of wood buildings in the market. The promotion of Wood Design Award winners and nominees will be used to increase the profile of existing Korean wood-frame projects.

Students learn framing techniques through Canada Wood Korea technical programs

EUROPE

B.C. Softwood Commodity Product Sales in E.U. (Softwood lumber, plywood, OSB, MDF and particleboard)



Market Type

- Fifth largest overseas market for B.C. softwood commodity products (by volume) after China, Japan, Taiwan and South Korea
- Mature housing sector with niche opportunities, particularly for high quality products
- Strong market for coastal products, especially western red cedar and Douglas-fir

B.C. Position

- Small overall supplier at less than 2% of total imports of softwood products

Export Sales

- 2011: 248,974 m^3 of commodity wood products valued at $155.9 million
- 2012 (through September): 169,700 m^3 valued at $104.4 million

Market Overview

Europe's economic recovery slowed in 2011 while concerns that the debt crisis will escalate have continued to dampen economic growth in 2012. Though the region's economy grew at the same rate as the U.S. in 2011, the trend for the two economies is much different in 2012. While the U.S. continues to see modest growth, GDP in the EU27 fell 0.2 per cent in the first quarter of 2012 over the third quarter of 2011 and short-term prospects for the region remain negative.

Softwood lumber demand is still recovering from the housing collapse in several countries, with softwood lumber consumption in the E.U. estimated at 84.4 million m^3 in 2011, up 1.3 per cent from 2010. E.U. production of softwood lumber was approximately 92.2 million m^3, just 0.9 per cent higher than in 2010. Total E.U. production exceeded consumption by about 7.8 million m^3, down from 8.1 million m^3 in 2010. Overcapacity remains a problem for the European industry and this has been compounded by the turmoil in important markets in North Africa and the Middle East.

Western red cedar used in replica of Noah's Arc, Netherlands

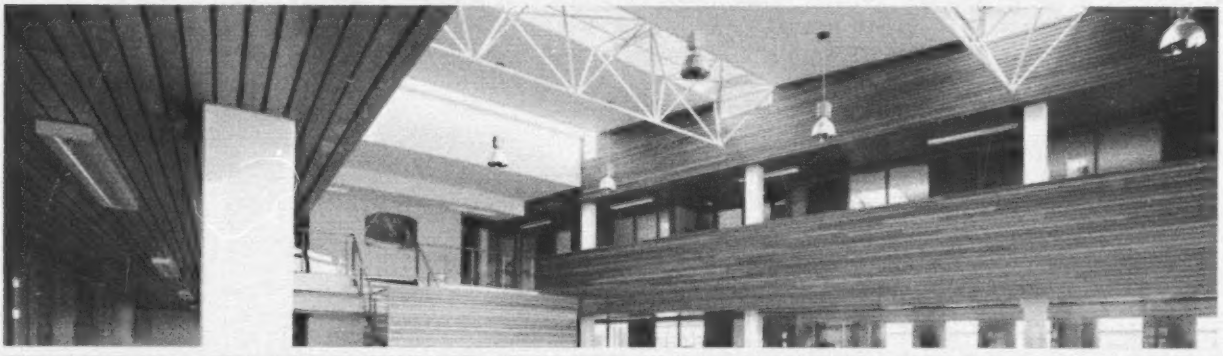
Market Strategy

While maintaining existing markets for softwood lumber and high value products such as cedar remained a priority for FII funding in 2011/12, new investments were made in expanding export markets for B.C. biomass products. Education and outreach continue in discerning European markets such as Germany and the Netherlands. Value-added industry efforts, led by BC Wood Specialties Group, have also expanded promotions in other European markets showing positive consumption trends. In particular, Turkey and the emerging Eastern European markets present significant opportunities for pre-fabricated housing, panelized systems and value-added architectural products.

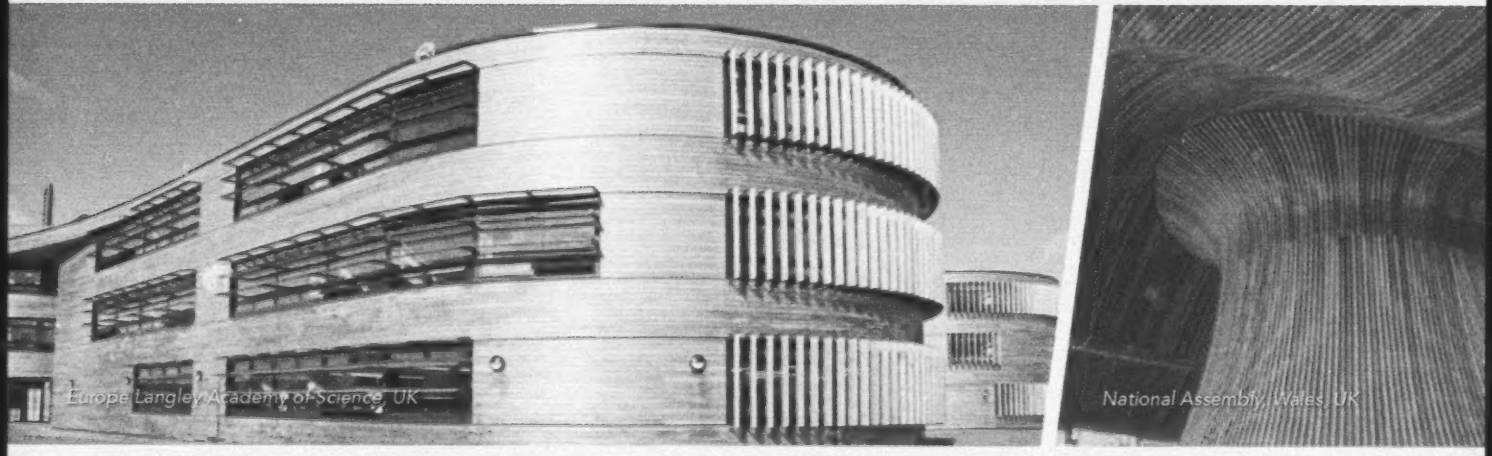
FII continues to fulfill an important role in monitoring and participating in debates around green building and environmental product declarations as these have significant impacts beyond the European markets. FII's Market Outreach activity in the E.U. will continue to focus on protecting and enhancing B.C.'s international reputation as a supplier of sustainable forest products.

Select Accomplishments 2011/12

- 2011/12 was the first year in which FII actively supported the wood biomass (pellet) industry to expand markets in Europe. Through the Wood Pellet Association of Canada (WPAC), Canada was represented on the European Pellet Council, which enabled the B.C. industry to secure ENPlus Licence export rights. Without the licence, B.C. companies would not be able to export pellets to Europe.
- The program also generated significant new demand from U.K. and central European buyers who visited pellet plants in B.C. In addition, 30 potential large-scale end users in Europe were connected with producers in B.C. via trade shows and inbound missions to Canada.
- Cedar was featured prominently in buildings developed for the London 2012 Olympic and Paralympic Games, including the cycling venue, which featured some 5,000 square metres of western red cedar on its exterior.
- Almost 500 designers and architects received training through 24 seminars and workshops across Europe on the benefits of cedar and other value-added wood products in a variety of applications.



Western red cedar on display in the Syntess Head Office, Netherlands



Europe Langley Academy of Science, UK

National Assembly, Wales, UK

Opportunities and Threats for B.C.

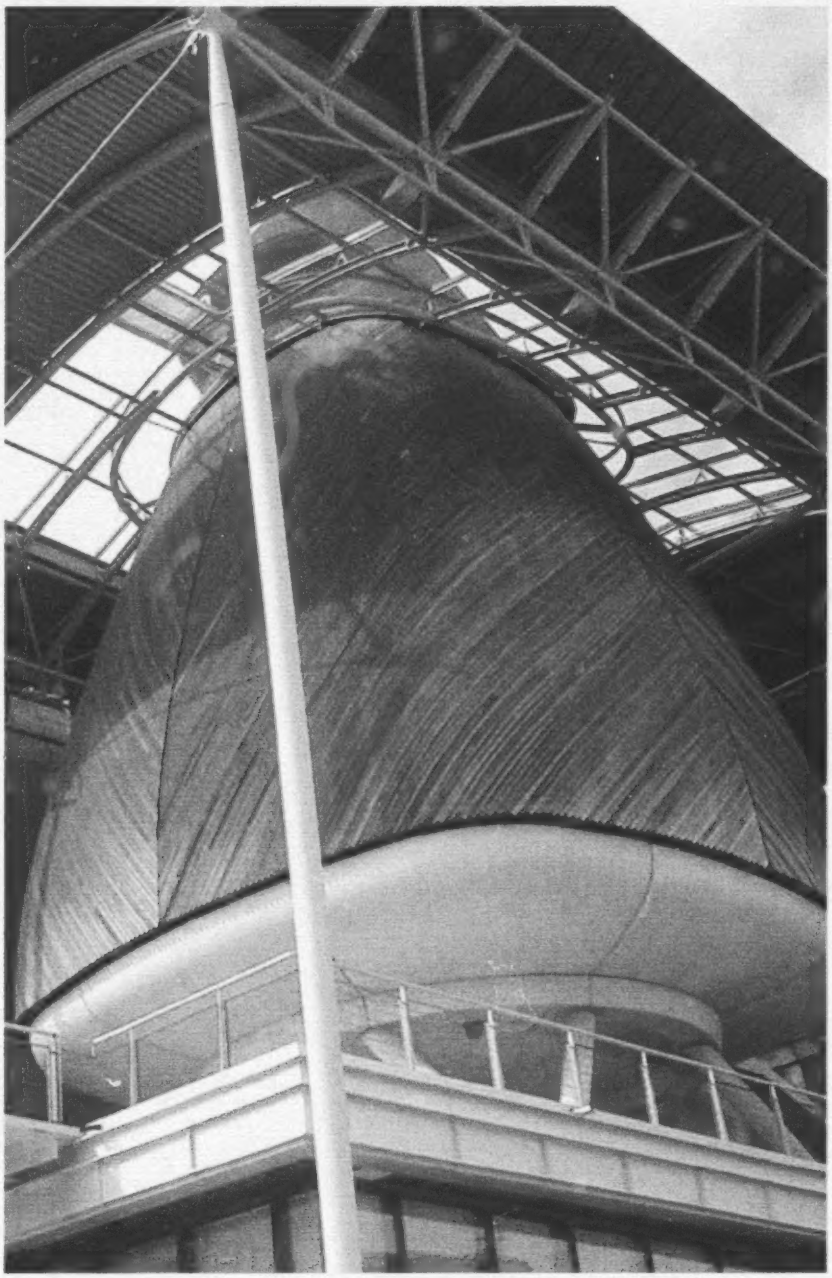
While the E.U. region teeters on the edge of a recession, economies in northern European countries are healthier than in the south and some projections are forecasting a recovery in residential and non-residential construction. This may increase demand for wood products in specific markets, including for B.C. coastal species such as western red cedar used in joinery and exterior applications.

- Consumer and government support for natural, green building materials is even stronger than in Canada and the U.S., suggesting long-term, sustainable demand for wood products from certified forests.
- Production of CLT and other higher value structural lumber is growing, with increasing use of mass timber in commercial and non-residential construction. If expanding European suppliers enter the export market, they may compete with B.C. manufacturers.

Focus in 2012/13

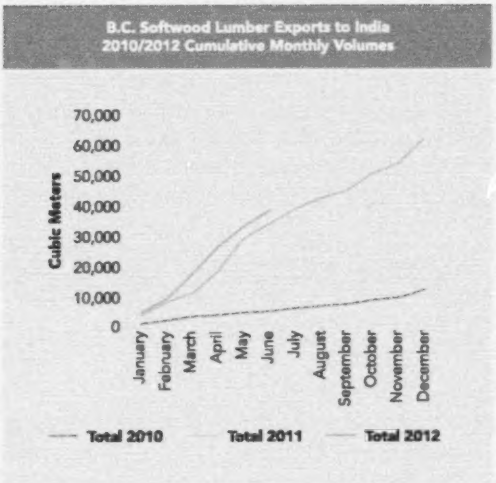
The focus of FII's funding recipients continues to be on advertising and promotion for high value products such as cedar and value-added manufactured products. Updating and maintaining promotional literature will be central to ensuring that B.C. puts its best foot forward in European markets that influence international trends.

In 2012/13 FII will continue investments in developing markets for wood pellets in Europe as there is a clear window for B.C. to establish itself as a preferred supplier to this high demand market. FII is also supporting work to ensure that international standards for biomass products set by industry bodies are favourable to exports from B.C. and the rest of Canada.



Law Courts, Bordeaux, France

INDIA

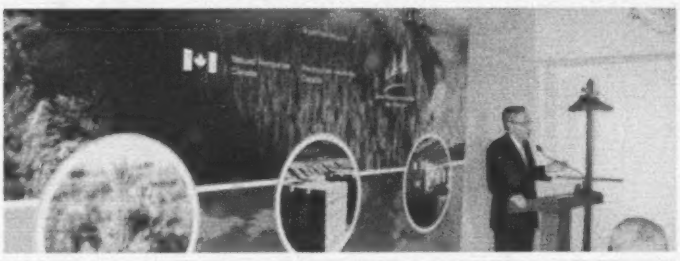


Until recently, B.C. exports of wood products to India remained very modest due to high tariff and non-tariff barriers, including phytosanitary restrictions. However strong growth in consumption and an expanding middle class now make India an attractive market prospect for the B.C. forest industry. Over the past several years, FII and the federal government have funded Canada Wood Group initiatives to reduce phytosanitary import restrictions in India. These efforts, combined with recent regulatory reforms in India, have now opened the market to Canadian softwood exports. As a result, there has been a sharp upswing in shipments of B.C. softwood lumber to India.

Although the volume of B.C.'s exports of wood products to India is still relatively small, the future potential seems sizeable. Recent research completed by FII, in partnership with the Forest Products Association of Canada and Canada Mortgage and Housing Corporation, confirmed that wood is not a primary construction material in India due to a variety of factors including, population density, strong domestic concrete and steel production and termite and durability issues related to the climate. However, the research work identified a number of significant trends that present good growth opportunities for B.C. wood products over the longer-term. These include a demand for wood products that has outstripped domestic supply, strong GDP projections and positive demographic indicators, all of which point to growth in the demand for imported wood products, particularly in material suited for furniture, packaging and pallets, interior architectural and decorative uses, and in other remanufactured applications. These findings form the basis for a new market development strategy for India launched by FII, Natural Resources Canada and the B.C. wood industry in the fall of 2012 with joint funding from FII ($645,000) and NRCan (up to $600,000).

As part of this strategy, FII has established an Indian subsidiary company and opened an office in Mumbai to provide on the ground assistance for the B.C. and Canadian wood industry. Over the past year, research has been completed to examine market opportunities, assess the local wood industry and explore shipping and logistics of moving product to India. The results of this work are guiding industry's strategic entry into the market. FII has also supported promotions of the industry at the IndiaWood show in Bangalore in February 2012, in partnership with the Canadian High Commission and the B.C. Trade office, and will be profiling the industry at the Green Building Congress in Hyderabad in November 2012, and at DelhiWood Show in February 2013.

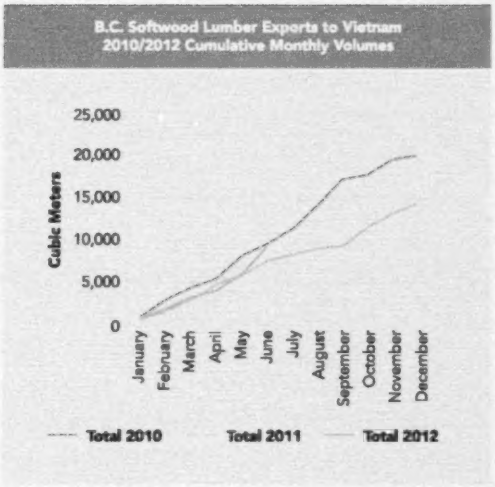
Other research projects are underway to track hardwood supply trends that will impact the market, investigate remaining phytosanitary and market barriers and provide due diligence on key market segments being pursued by B.C. companies. Execution of the market development strategy will accelerate in 2012/13 in partnership with Natural Resources Canada and industry, with proactive promotions and outreach planned to build awareness and acceptance of B.C. and Canadian wood products within major market segments.



Minister of Natural Resources, Joe Oliver, announces federal funding for the joint BC-Canada India Market Development Program, Mumbai, India, October 2012

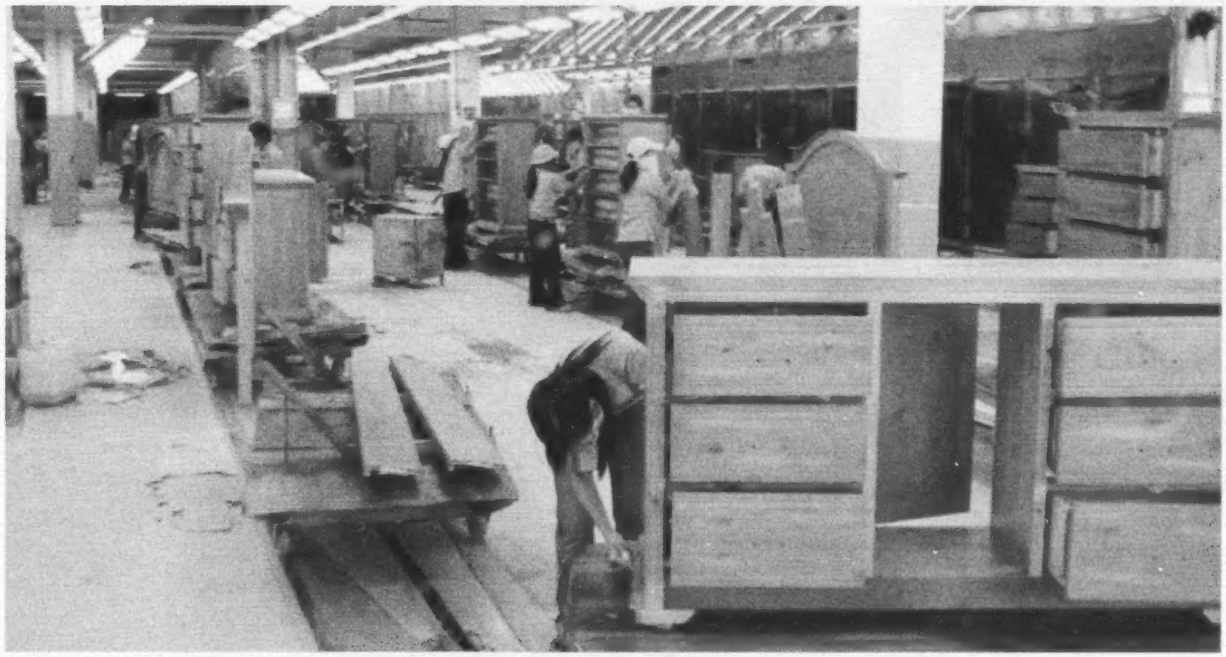
Delegation of India buyers tour Interfor facilities, September 2012

VIETNAM



Prior to the economic downturn in 2008-09, Vietnam had emerged as a significant player in the global wood products sector, particularly as a remanufacturing and re-export market for furniture. Following a drop in sales due to the global slowdown, the Vietnamese market is showing signs of an upswing with raw material imports for furniture manufacturing and general construction growing as the furniture and remanufacturing industry rebounds. While B.C. exports of softwood lumber to Vietnam fell by 28 per cent to 14,384 m^3 in 2011, recent data indicates that B.C. suppliers are beginning to see signs of a resurgence in Vietnam's wood products manufacturing sector.

FII is working closely with the B.C. forest products industry to monitor these trends and to identify opportunities and issues for the B.C. forest products sector.



Furniture manufacturing, Ho Chi Minh City

Wood First in B.C.

Announced in 2009, the Government of B.C.'s Wood First initiative responded to a number of government and industry priorities for the provincial forest economy. These included the need to generate greater value from the fibre base and to broaden wood use in order to reduce industry's overwhelming dependency on single family home construction market in North America.

While wood dominates residential construction in B.C., a 2009 study found wood had only a 26 per cent share, by floor area, of institutional construction in the Province, and 10 per cent of commercial construction. It had no presence at all in industrial construction. The study also showed that wood usage was lower in public sector construction projects than in private sector construction.

By deepening consumer and builder commitment to wood products in the Province, the Wood First initiative was seen as a means of enhancing the demand for B.C. wood products, as well as the green credentials of local construction.

In 2009, the B.C. Government supported the Wood First initiative by proclaiming the Wood First Act which encourages and supports the use of wood based products, technologies and services in publicly funded buildings.

In 2010 a Wood Enterprise Coalition (WEC) of FPInnovations, the Canadian Wood Council and BC Wood Specialties Group was established to lead Wood First activities with $1.75 million in provincial funding over two years. The main areas of focus for the WEC were to propose and advance innovative demonstration projects, provide education and skills development to design professionals, champion the development of Wood First policies with municipalities throughout B.C. and support provincial ministries in implementation of the Act.

Program Approach

FII has been responsible for leading the Wood First initiative since June 2011. In the past year, an independent Wood First Advisory Committee (WFAC) was chartered to provide strategic guidance to FII on the future direction of the program. The committee includes a broad cross-section of representatives from the wood processing sectors and the design, specification and end-user communities. For 2012/13 the Business Innovation Program (BIP), designed to increase the competiveness of B.C.'s value-added wood products firms, was incorporated within the overall B.C. Wood First Initiative.

Based on input from the advisory committee, FII updated the overall objective of Wood First to "position wood as a preferred building material and B.C. as a global leader in wood innovation". Five goals have been identified to guide Wood First activities in B.C., namely to:

- grow the culture of living and building with wood in B.C. and beyond;
- maximize the appropriate use of wood in public and private projects;
- strengthen B.C.'s capacity to produce high quality wood-based products and building systems;
- accelerate adoption of existing and emerging wood-based products and building systems; and
- position B.C. as a world leader in sustainable and innovative wood-based products and building systems in design, production and application.

Earth Science Building, University of B.C.

In 2012/13, Wood First efforts will focus on achieving these goals through programs delivered by FII and industry partners, including:

- **BC Wood Specialties Group**
  - Build awareness among specifiers in B.C. (including architects, engineers, interior designers, contractors and developers) of the species, products and building systems available in the Province
  - Assist small and mid-sized companies operating in B.C. with strategic business development and marketing education, training and events
- **Canadian Wood Council – Wood *WORKS!* BC**
  - Deliver a range of educational, technical and outreach services designed to facilitate increased use of wood in construction, particularly in non-residential and multi-storey mixed use building types
  - Influence and increase wood proficiency in design through one-on-one interaction, networking, workshops, seminars, design luncheons, design conferences, development of case studies, direct technical support, product sourcing and recognition of excellence in wood design
- **University of British Columbia Centre for Advanced Wood Processing**
  - Conduct applied research into innovative fasteners, coatings and resins
  - Assist industry with improving design capacity, product development and plant productivity
- **FPInnovations**
  - Participate in B.C. Building Code work, fire testing and development of alternative design solutions
  - Assist small and mid-sized companies operating in B.C. with technology transfer education, training and events

The market thrust of Wood First – to broaden interest in, and use of, wood products – is a common theme in all of FII's activities, including international market development and market outreach across North America (see Market Outreach Program later in this document). Programs targeting growth in the non-residential sector, the reThink Wood strategy and education programs targeting architects are examples of how FII and its coalition partners are working to spread the Wood First philosophy outside B.C.

Another example of B.C.'s leadership in wood use is that FII is supporting work this year on revising the National Building Code to allow residential six-storey, wood-frame buildings. Further research is underway to consider other opportunities to expand wood use in commercial construction and health facilities under the B.C. Building Code.

Select Accomplishments 2011-2012

- 44 local governments in B.C. have passed or endorsed Wood First resolutions in response to an outreach program of the Wood Enterprise Coalition, leading to greater wood use in public sector projects, as fostered by the *Wood First Act*.
- Three local government projects demonstrating innovative use of wood products opened in June 2012:
  - Elkford Community Centre: The District of Elkford built a new community centre featuring the first commercial use of cross-laminated timber wall panels in North America
  - North Vancouver City Hall: The City of North Vancouver renovated its city hall using a laminated strand lumber roof panel system and a composite wood-concrete floor system, a first in North America
  - North Vancouver School District: The district completed the North Shore Credit Union Environmental Learning Centre as an outdoors-oriented learning facility. The centre features cross-laminated timber and extensive wood finishings
- The release of a seminal study entitled *The Case for Tall Wood Buildings – How Mass Timber Offers a Safe, Economical, and Environmentally Friendly Alternative for Tall Building Structures* generated widespread international interest with architects, engineers and developers over the potential for using heavy wood products to build skyscrapers. Intended to alter perceptions about the opportunities for wood use in larger and taller buildings, the report is generating debate globally about tall wood structures and positioning B.C. at the forefront of this trend.

- Through outreach to architects, builders and developers, planning and construction of wood-frame, multi-storey (up to six storeys), multi-family residential buildings accelerated in the past year. 179 buildings are now in various stages of planning or development, of which 23 are currently under construction and 9 are complete.
- The commercialization of cross-laminated timber has been furthered by FPInnovations release of the CLT Handbook, which provides a standard for CLT manufacturing, design and construction. B.C. participated in updating the APA/ANSI Standard for Performance Rated cross-laminated timber, which is an important element of code acceptance for CLT in the United States.
- Research projects were completed for use of wood in commercial and institutional occupancy classes under the B.C. Building code. This included mid-rise seismic design, design properties of mass timber elements and reducing fire risk during construction.
- The Business Innovation Program delivered 39 projects that helped individual companies develop new product prototypes, optimise manufacturing processes and reduce costs.
- 515 architects, engineers and developers participated in training sessions in B.C. to build awareness and the ability to use wood in their projects.
- The Wood *WORKS!* BC program (an initiative of the Canadian Wood Council) continued to drive increased project conversions and sales in non-residential projects, exceeding program targets again in 2011/12.

COMMUNITIES WITH WOOD FIRST COMMITMENTS

COMMUNITY	DATE	COMMUNITY	DATE
100 Mile House	13-Sept-2010	Midway	19-Jul-2010
Armstrong	10-May-2010	Merritt	27-Oct-2010
Campbell River	21-Sept-2010	Nakusp	10-Nov-2009
Cariboo RD	15-Apr-2010	North Cowichan	06-Oct-2010
Castlegar	18-Jan-2010	North Okanagan RD	02-Feb 2011
Chase	09-Nov-2010	Penticton	07-Nov-2011
Chetwynd	18-Oct-2010	Prince George	01-Feb-2010
Columbia Shuswap	28-Jan-2010	Port Alberni	12-Oct-2010
Cranbrook	10-Jan-2011	Port Clements	04-Oct-2010
Enderby	07-Sept-2010	Port Hardy	12-Oct-2010
Fort St. James	27-Oct-2010	Princeton	14-Sept-2010
Fruitvale	12-Jan-2010	Queen Charlotte	20-Sept-2011
Gibson	21-Sept-2010	Quesnel	09-Nov-2009
Grand Forks	25-Sept-2010	Revelstoke	25-Jan-2011
Hazelton	05-Oct-2010	Sechelt	17-Nov-2010
Houston	04-Jan-2011	Spallumcheen	06-Dec-2010
Kaslo	15-Mar-2010	Squamish	19-Dec-2000
Kelowna	28-Jun-2010	Surrey	15-Nov-2010
Kootenay Boundary RD	27-Oct-2010	Taylor	05-Oct-2010
Lumby	01-Nov-2010	Terrace	22-Mar-2010
Langley Township	25-Jul-2011	Vernon	10-Nov-2010
Lake Cowichan	21-Dec-2010	Williams Lake	23-Mar-2010

Remy Development, Richmond B.C.

Market Outreach Program

Over the last decade, B.C. has developed a reputation as a global leader in sustainable forest management. Maintaining this position requires ongoing efforts to ensure recognition in existing and new markets and to respond to new environmental and social policy developments. As a supplier of innovative and renewable building materials, as well as advanced wood design and construction technologies, B.C.'s forest sector has strategic opportunities upon which to base market expansion.

While the forest industry communicates the performance and benefits of specific product lines to domestic and international customers, FII's Market Outreach Program ensures that customers have factual, consistent and credible information about the environmental benefits of using wood products, the range of wood products and wood construction technologies available from B.C., and the facts on B.C.'s forest management practices. In providing this information, FII programming addresses two key questions "Why use wood?" and "Why purchase wood products from British Columbia?"

Program Approach

Central to the Market Outreach strategy is the promotion and differentiation of B.C. and its forest sector as a leading global supplier of products from sustainably-managed forests. The long-term goal is to have wood viewed as a preferred building material and B.C. recognized globally as a leader in wood innovation and sustainable forest management. Specifically, the program:

- Provides timely and factual information regarding B.C. forest products and forest practices;
- Champions science- and fact-based approaches to communicate the merits of wood and wood-based construction technologies in a green building and climate change context;
- Collaborates with forest sector stakeholders to encourage consistent and compelling messages in the context of product and building innovations and reducing environmental impacts; and
- Monitors and advocates for codes, standards and policies that recognize the merits of wood and B.C. forest products.

Focus in 2012/13

FII Market Outreach activities in 2012/13 focus on achieving three primary outcomes:

1. **Architects, engineers and builders recognize wood as a preferred building material, use it appropriately, and understand its benefits to mitigate climate change and achieve green building objectives.**

   Key initiatives are to:

   - Support research to provide science-based, objective evidence of the attributes of wood and B.C.'s superior forest management regime.
   - Maintain B.C.'s position as a North American leader in building with wood by increasing awareness of lessons learned in British Columbia from mid-rise and non-residential development initiatives.
   - Collaborate with government and industry stakeholders who are promoting wood to architects, engineers and other key specifiers to ensure alignment with the North America reThink Wood platform.
   - Develop comprehensive and targeted tools that promote the benefits of wood as a product that regenerates naturally and, when managed sustainably, supports climate change reduction strategies.
   - Champion B.C.'s forest sector by using web-based and traditional marketing tools and channels to reach target audiences, providing informative and compelling resources to support pro-wood procurement and decision-making.

2. **Domestic and international regulators and policy makers recognize B.C./Canadian forest management practices, products and building systems in codes, standards and policies.**

Key initiatives are to:

- Work with government and industry partners to monitor domestic and international developments and to engage with government agencies to address forest management and environmental and social responsibility policy.
- Encourage inclusive recognition of all credible third-party wood product certifications in Canada and elsewhere and encourage adoption of chain-of-custody certification and labelling.
- Support the evolution of green building codes and rating systems, advocating for appropriate recognition of the merits of using wood.
- Support carbon labeling and environmental product declaration standards, such as those being considered in Japan and the United Kingdom, that do not discriminate against wood products.
- Work with the industry and federal government to ensure access for B.C. forest products to priority markets, overcoming trade barriers or issues that may arise.

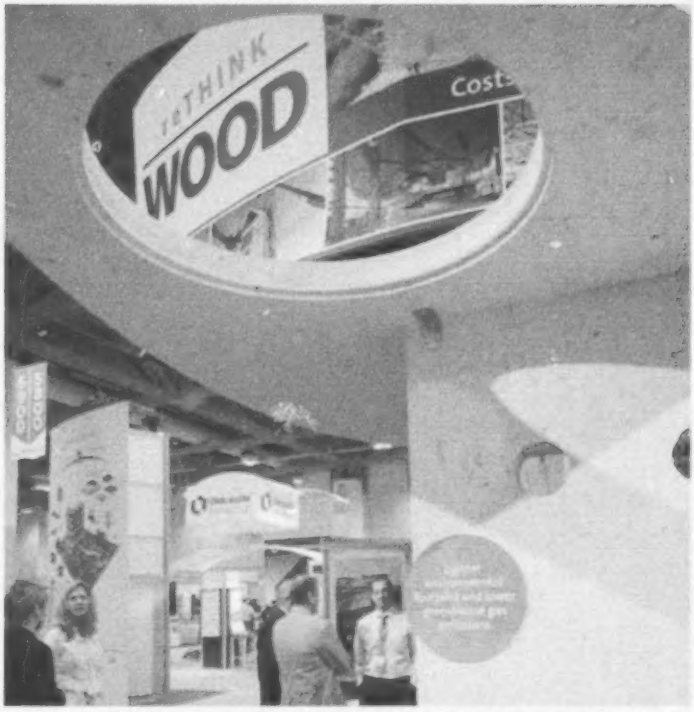
3. **B.C. is globally recognized as a leader in sustainable forest practices, and is a preferred supplier of forest products and wood building solutions.**

Key Initiatives are to:

- Invest in messaging, materials and channels to position wood as a responsible material and promote the variety and quality of wood products produced from B.C.'s sustainably-managed forests.
- Provide timely, factual and scientific information regarding B.C. forest practices, products and building systems to domestic and international audiences, including government, customers and specifiers such as architects.
- Act as a comprehensive information resource for government, trade associations, B.C. companies and other stakeholders to support marketing initiatives and to respond to wood performance and environmental reputation challenges.

Wood: Sound building material. Responsible choice.
naturallywood.com
Why Wood?
Life Cycle Assessment
British Columbia wood. Sustainable by nature. Innovative by design.

naturallywood.com display, B.C. Wood Specialties Group booth, 2012 Global Buyers Mission



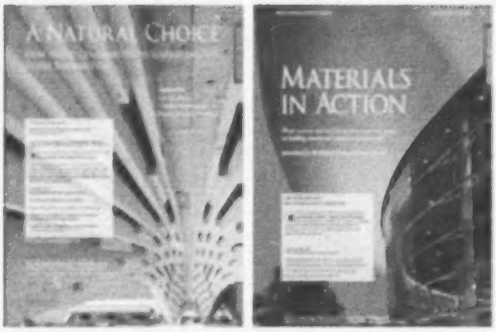
Growing Demand for Wood – reThink Wood + the North American Wood Products Industry

Led by the Softwood Lumber Board (SLB), the Binational Softwood Lumber Council (BSLC) and FII, the reThink Wood initiative was launched to project common messaging as it relates to wood performance, cost and sustainability, making it easier for industry to speak with a unified voice and to educate target audiences about the advantages of using wood building systems.

The program will provide key messages and pro-wood materials that will be leveraged by all North American trade organizations, including those funded by the SLB, BSLC, FII and the US Softwood Lumber Check-Off Program. FII is also leveraging these messages and materials for use with B.C.'s Wood First Initiative, and for its investments outside of North America.

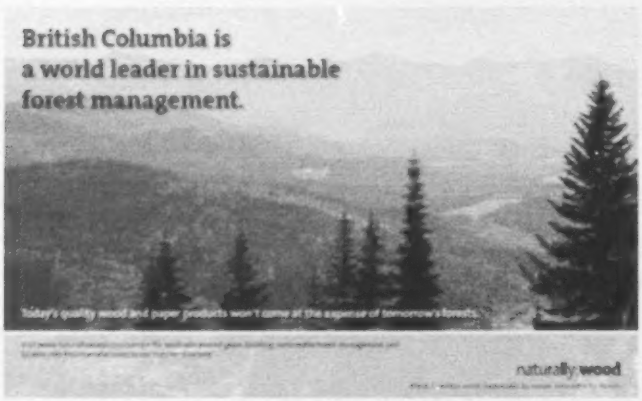
To date, the program has generated:

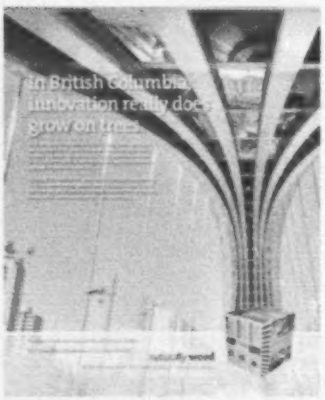
- Over 10,000 leads/contacts
- Over 8,000 Twitter followers/Facebook fans
- 12 articles in leading North American architect, building and design publications on tall wood structures, seismic performance, structural benefits, wood construction best practices
- Over 53 million online and print ad views, including *Canadian Journal of Green Building & Design, Construction Canada, Construction Superintendent, Engineered Wood, Structural Engineer, Construction Specifier, Structural Engineer, GreenSource* and *Retail Today*



Growing Demand for Wood – Architect Continuing Education

- Each year nearly 27,000 architects and design professionals take American Institute of Architects-sponsored continuing education courses from leading publisher, McGraw-Hill, through their publications, Architectural Record and GreenSource. In 2011/12, FII, with input from U.S. WoodWorks, Canadian Wood Council and other stakeholders, sponsored and coordinated three courses: *Materials Matter, Materials In Action* and *A Natural Choice*. Each of the three courses attracted over 2,300 architects and design professionals making them among McGraw-Hill's most popular course offerings in 2011. Release of these continuing education units (CEUs) followed on the heels of FII's *Wood Rates: How Wood Products Stack Up in Green Building Systems* course, one of the top ten CEU's in 2010.





Championing B.C. Forest Products – Paid + Earned Media

- In 2011/12, B.C. Architect's Toolkit and naturally:wood advertisements were placed in 15 magazines and five online channels focused on architects and builders, as well as the sustainable design community, publishers and related trade shows. Total circulation for print and online advertising was 2,168,085, generating over 1,536 unique page views to the FII website (an increase of 959 click-throughs from last year). From these publications, FII received 356 requests for more information about naturally:wood and the B.C. Architect's Toolkit.

Experience this sand artist remarkable technique to explore the endless potential and creativity of wood.
You Tube
British Columbia Wood.
Sustainable by Nature.
Innovative by Design.
naturallywood.com

Championing B.C. Forest Products – YouTube

- In 2011/12 FII launched the naturally:wood YouTube channel as a way to engage with audiences online and to leverage the range of video resources available.
- To date, the YouTube channel has received more than 32,000 video views, 85 subscribers, 113 likes, 79 shares and 72 favourites. *Introducing Cross-Laminated Timber to North America*, *Wood in Transportation*, *Building Green* and the *"Sawdust"* video have garnered the most attention. A growing number of stakeholders are using, leveraging and embedding naturally:wood video materials for their own marketing and communications purposes.

A February 2012 visit by European pellet customers helped them conclude that fibre from B.C. fulfills their sustainability requirements

Ensuring Access to Global Markets

- In close collaboration with partners in the provincial and federal governments, and the forest industry, FII provided input into a number of potential market issues including the U.S., European and Australian illegal timber legislation, and biomass sustainability criteria in Europe.

Forestry Innovation Investment works with the forest industry and government to develop materials and tools to help promote British Columbia's forest products and sustainable forest practices internationally. The resources outlined here are designed for use by the British Columbia government, forestry companies and trade associations to:

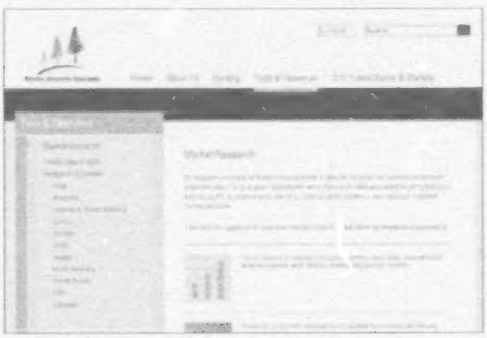
- Research market opportunities;
- Support market development and communications activities; and
- Provide facts and science on British Columbia's forest practices and the environmental benefits of wood as a green building product.

These resources are available at no charge. See FII website's Tools & Resources section for more information: www.bcfii.ca/tools-resources/

Market Research

A competitive and evolving global forest sector requires industry have access to timely market research to identify evolving market opportunities and maintain competitive product advantage. FII offers:

- An extensive library of research on major and emerging geographic and sector markets for British Columbia forest products;
- An annual trend analysis with export data and market reviews.

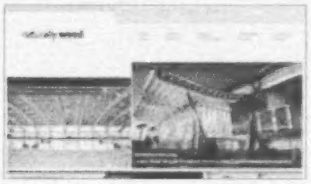


To view report summaries, as well as to request a password to access entire reports, visit www.bcfii.ca/tools-resources/market-research/.

Promoting Benefits of Wood and B.C. Forestry Industry

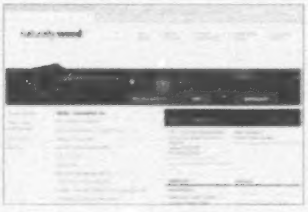
British Columbia is well positioned as a supplier of quality, innovative and environmentally-responsible products to markets around the world. FII has prepared a variety of print and electronic materials for use by B.C. forest companies and trade associations to assist with market development efforts at all levels.

www.naturallywood.com



This comprehensive online resource about B.C.'s forests, wood and pulp and paper industries draw s attention to B.C., as a supplier of high quality, environmentally-responsible products to markets around the world. There are also many links to trade associations, a supplier directory and YouTube Channel.

B.C. Supplier and Certified Product Directory



Lists over 600 companies manufacturing and/or selling B.C. wood and pulp and paper products and includes product, species and certification/ chain of custody information.

Please visit www.naturallywood.com/supplierdirectory/ to see if your company is included. Contact FII at info@bcfii.ca to request edits or additions.

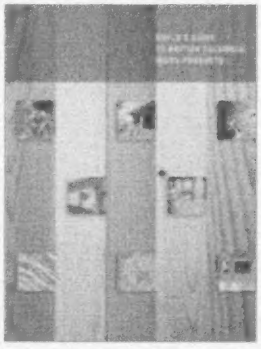
Image Library & Video Library

The FII Image and Video Libraries contain a wide range of professional images of B.C.'s forests, forestry activities, manufacturing, building, trade and overseas market use of wood products.

Images – for high resolution images suitable for printing or advertising please fill out the on-line request form at imagelibrary.bcfii.ca.

Video – for a list of available footage, or to arrange a time to view clips at FII's office, please contact FII at info@bcfii.ca.

Buyers Guide to British Columbia Wood Products



A comprehensive guide on B.C.'s forest and wood industries. Everything from the diversity of tree species and sustainable forest management to available wood products, quality assurance and association listings.

Factsheets

Diverse and Innovative Wood Products – Showcases how B.C.'s wide variety of quality wood products are capable of meeting any structural or finishing need.

Mountain Pine Beetle – Summarizes the epidemic and how B.C. has responded.

Responsible Paper Production – Highlights how the pulp and paper industry is reducing its impact on the environment and increasing use of solid waste and post-consumer recycled products.

Video

Sawdust – Explores the endless potential and creativity of wood as a building material.

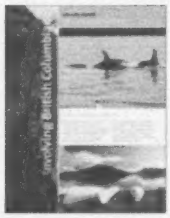
Sustainable Forest Management

Customers often ask *"How can I be sure that if I purchase your product, it is coming from a responsible source?"*. FII has a suite of publications available for industry use that provide factual, up-to-date information on British Columbia's forest management practices; and fact-based evidence in support of all forest certification programs operating in B.C., to support inclusive purchasing policies.

For questions on British Columbia's forest management, the following resources are available:

Sustainable Forest Management – Describes B.C.'s forest practices and policies.

Factsheets



B.C. Parks and Protected Areas – Highlights how B.C. protects our diverse forests.

British Columbia's Boreal Region – Describes the management of B.C.'s Boreal region.

British Columbia's Forest Diversity – Demonstrates how we are conserving B.C. forests.

British Columbia's Woodland Caribou – Learn about the different ecotypes/groups of Woodland Caribou in B.C.

Involving British Columbians – Describes how British Columbian's are included in land-use planning.

British Columbia: Legal Source of Quality Forest Products – Demonstrates that B.C. is a legal source of wood products

British Columbia's North and Central Coast Regions – Learn about the agreement between First Nations, the Province of B.C., industry and environmental groups.

Video

Managing for Sustainability – Shows how B.C.'s sustainable forest management serves the needs of our people, our environment and our customers worldwide.

The Veteran Tree Planter – A veteran tree planter shares his personal story of why tree planting has been an important part of his life.

Certification

For questions regarding third-party certification and forest management standards in B.C. and around the world:

Factsheets

Third-Party Forest Certification in British Columbia – Summarizes and compares CSA SFM, FSC, PEFC and SFI in B.C.

Research and Publications

Comparison of selected forest certification standards (2009) – A study conducted by Indufor Oy examines the linkages between forest regulation and forest certification around the world.

Comparing B.C. with the World (2004) – An independent ground-breaking study conducted by Dr. Cashore, a professor at Yale University, comparing Canada's environmental forest practice regulations with those in jurisdictions around the world.

A Guide to Chain of Custody – A guide to help companies develop a chain of custody that can be used for their entire wood supply, adding value to existing certification efforts through verified claims that promote their products.

Wood, Forests and Environmental Impacts

Forests play a key role in mitigating climate change by absorbing and storing carbon in trees, soil and biomass. Healthy growing forests recycle carbon naturally. When trees are used for forest products, the carbon often remains stored in the products for decades or longer.

The following publications have been developed to demonstrate how British Columbia's and Canada's forests and forest products can help mitigate climate change.

Research and Publications

A Synthesis of Research on Wood Products & Greenhouse Gas Impacts 2nd Edition (FPInnovations) – A review of 66 studies comparing wood to other materials in terms of net greenhouse gas (GHG) footprint (in collaboration with Natural Resources Canada and FPAC).

Woodmiles UK and Woodmiles Japan – Two studies that assess the impact of shipping timber from B.C. to the UK and Japan (in collaboration with FPAC).

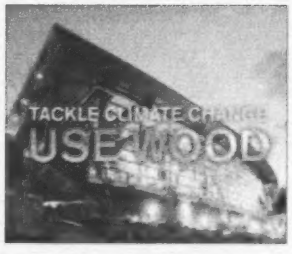
Toward a Common Cause: the Embrace of Carbon Along a Supply Chain – A study conducted by UBC's Forest Resources Management Department and WWF's Global Forest Program to measure carbon emissions of a magazine along its supply chain.

Demonstrating Wood's Carbon Benefits: A Carbon Footprint of Four Canadian Wood Products Delivered to the UK – A study by the Athena Institute and FPInnovations that shows the carbon footprint of four wood products manufactured in Canada and delivered to the UK.

Tackle Climate Change, Use Wood – Highlights the environmental attributes of Canadian forest products and the achievements of the country's forest industry with respect to climate change (in collaboration with the B.C. Forestry Climate Change Working Group, Canada Wood and the Forests Products Association of Canada (FPAC).

Canadian Wood. Renewable by Nature. Sustainable by Design. – Examines the environmental benefits of building with wood (in collaboration with Canada Wood, Canadian Wood Council and FPAC).

Video



Tackle Climate Change, Use Wood – Demonstrates how B.C. forests and forest products help mitigate climate change (in collaboration with the B.C. Forest Sector Climate Action Steering Committee).

Building with Wood / Building Green

Green building practices have proliferated across the marketplace and the wood products sector is well-positioned to benefit from science-based approaches, such as life cycle assessment (LCA) and carbon sequestration research. The following publications help promote the environmental attributes of wood in relation to green building as well as provide examples to promote B.C. as a leader in recognizing wood in green building applications.

Factsheets

Building Green and the Benefits of Wood – Summarizes different green building rating systems and compares three prominent green building standards.

Wood Use in 2010 Olympic & Paralympic Venues – Summarizes the different ways wood was utilized in the 2010 Olympic & Paralympic Venues.

Presentations, Publications and Research

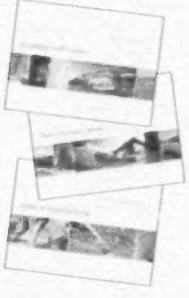
Building Green with Wood Toolkit

Intended as a resource for architects, engineers and specifiers, the Toolkit includes two Powerpoint presentations with 12 supporting modules and 10 Green Building Rating System Guides. Topics include energy and resource conservation, transportation effects, durability, acoustics, recycled and salvaged materials and life cycle assessment. The toolkit includes links to other information sources (in collaboration with FPAC).

Green Building Rating Systems and How they Relate to Wood – A study by Light House Sustainable Building Centre that analyzes several green building rating systems and how they relate to wood.

Environmental Product Declarations (EPDs) – A study by FPInnovations on new environmental labeling designed to provide accurate, accessible and comparable information about the environmental impact from goods or services.

Case Studies



Highlights structures in British Columbia and around the world that utilize B.C. wood products:

- *Wood in Education*
- *Wood in Healthcare*
- *Wood in Transportation*
- *Cross-laminated Timber in B.C.- Featuring the Dowling Resience*
- *Gleneagles Community Centre*
- *John M.S. Lecky UBC Boathouse*
- *Nita Lake Lodge*
- *Squamish Adventure Centre*
- *Squamish Lil'Wat Cultural Centre*
- *Six-Storey Wood Construction in British Columbia*
- *Trout Lake Ice Rink and Percy Norman Aquatic Centre*
- *Vancouver Convention Centre*
- *Whistler Public Library*
- *West Vancouver Aquatic Centre*

Videos

B.C. Wood Structure Video Series – A suite of videos that showcase the use of wood in B.C. structures:

- *Wood in Airports*
- *Wood in Education*
- *Wood and Human Health*
- *Wood in Transportation: Skytrain Stations and a Bridge Green*
- *Roof, Gold Medals: Richmond Olympic Oval*
- *Unconventional Thinking: Vancouver Convention Centre*
- *Bringing the Outside In: HillsideAquatic Centre*

Introducing Cross-laminated Timber (CLT) to North America – An introduction to cross-laminated timber, including expert interviews and how it is manufactured.

Building Green – Demonstrates how wood products are an excellent choice to reduce the impact of buildings on the environment.

Wood export guide to China

With demand for B.C. wood products in China rising rapidly there is a growing need to provide potential exporters with a comprehensive guide to help start, plan and conduct wood export activities to China from Canada. This guide addresses Chinese import restrictions and B.C. and Canadian export regulations and processes.

Resources

www.bcfii.ca/tools-resources/

Market Research
www.bcfii.ca/tools-resources/market-research/

Marketing Tools
www.bcfii.ca/tools-resources/marketing-tools-images/

naturally:wood You Tube Channel
www.youtube.com/user/naturallywood

Supplier and Certified Product Directory
www.naturallywood.com/supplierdirectory/

Image Gallery
imagelibrary.bcfii.ca/

Publications
www.naturallywood.com/resources

Report to Stakeholders
www.bcfii.ca/wp-content/uploads/aboutus/corporate/corporate-reports/FII-Stakeholder-Report.pdf

For questions, requests for print copies and market research passwords, contact us at info@bcfii.ca.

Forestry Innovation Investment

www.bcfii.ca | www.naturallywood.com

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Page 28 – Canada Wood Group
Page 30 – Coast Forest Products Assoc
Page 31 – Canada Wood Korea
Page 32 left – Canada Wood Group; right – Canada Wood Group
Page 33 – Canada Wood Group Korea
Page 34/35 – Western Red Cedar Lumber Association
Page 36 – Western Red Cedar Lumber Association
Page 43 – BC Wood Specialties Group

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